2020 Property Tax Update

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Nebraska property tax update

- State & local taxing & spending overview
- Agland property tax issues
- 2019-2020 legislative proposals & prospects
- Property tax relief initiative—LR3CA
  - “35% solution”; petition active for 2020 ballot
Neb state & local taxes FY2015

<table>
<thead>
<tr>
<th></th>
<th>State &amp; local</th>
<th>% of total</th>
<th>State %</th>
<th>Local %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total taxes collected</td>
<td>$9.6 billion</td>
<td>---</td>
<td>53%</td>
<td>47%</td>
</tr>
<tr>
<td>Property taxes</td>
<td>$3.6 billion</td>
<td>38%</td>
<td>---</td>
<td>100%</td>
</tr>
<tr>
<td>Sales tax</td>
<td>$2.8 billion</td>
<td>29%</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>Income tax</td>
<td>$2.5 billion</td>
<td>26%</td>
<td>100%</td>
<td>---</td>
</tr>
<tr>
<td>Other taxes</td>
<td>$0.6 billion</td>
<td>7%</td>
<td>30%</td>
<td>70%</td>
</tr>
</tbody>
</table>

State & local taxes, con’t

- State taxes are 53% of total state-local tax collections
  - **Sales** taxes = 45% of total state taxes
  - **Income** taxes = 51% of total state taxes
  - Other taxes = 4% of total state taxes
- Local taxes are 47% of total state-local tax collections
  - **Property** taxes = 80% of total local taxes
  - Sales taxes = 10% of total local taxes
  - Other taxes = 10% of total local taxes
- 60% of property taxes go for K-12 school funding
Nebraska’s Three-Legged Stool

State and Local Taxes by Type, 2015

- Personal Income, 23.39%
- Property, 37.5%
- General Sales, 22.56%
- Selective Sales, 6.38%
- Other, 6.56%
- Total Property: 37.5%
- Total Sales: 28.9%
- Total Income: 27.0%
- Total Other: 6.6%

Corporate Income, 3.60%

Source: US Census Bureau, 2015 Annual Survey of State and Local Government Finances

Balancing the 3-Legged Stool

<table>
<thead>
<tr>
<th>State and Local Taxes</th>
<th>% Actual (2015)</th>
<th>% - Balanced</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td>37.5%</td>
<td>31.13%</td>
<td>-$612M</td>
</tr>
<tr>
<td>Sales (Includes General + Selective)</td>
<td>28.9%</td>
<td>31.13%</td>
<td>+$210M</td>
</tr>
<tr>
<td>Income (Includes Personal + Corporate)</td>
<td>27%</td>
<td>31.13%</td>
<td>+397M</td>
</tr>
<tr>
<td>Other</td>
<td>6.6%</td>
<td>6.56%</td>
<td>$0</td>
</tr>
</tbody>
</table>

Source: US Census Bureau, 2015 Annual Survey of State and Local Government Finances
Nebraska state tax & school funding rankings

- Tax Foundation 2019 business climate study:
  - Overall tax burden: 24/50 (1 is lowest burden)
  - Income taxes 26/50 (1 is lowest tax)--middle
  - Sales taxes 9/50 (1 is lowest tax)--low
  - Property taxes 40/50 (1 is lowest tax)--high
- US census bureau school finance 2014-15 data
  - State k-12 funding 48/50 (1 is highest funding)
  - Local k-12 funding 2/50 (1 is highest funding)
### State general fund spending

<table>
<thead>
<tr>
<th>General Fund Appropriations, FY 2016-17</th>
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<tbody>
<tr>
<td>Total state k-12 funding</td>
<td>$1,308 million</td>
<td>29%</td>
</tr>
<tr>
<td>Medicaid &amp; CHIP</td>
<td>$856 million</td>
<td>19%</td>
</tr>
<tr>
<td>Other state aid to individuals (HHS)</td>
<td>$803 million</td>
<td>18%</td>
</tr>
<tr>
<td>Higher education (NU; state &amp; community colleges)</td>
<td>$730 million</td>
<td>16%</td>
</tr>
<tr>
<td>Law enforcement &amp; public safety</td>
<td>$501 million</td>
<td>11%</td>
</tr>
<tr>
<td>Other state agencies</td>
<td>$160 million</td>
<td>4%</td>
</tr>
<tr>
<td>State aid to local governments</td>
<td>$98 million</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>$4,456 million</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2018 General Fund Functional Summary

### Local property tax spending

<table>
<thead>
<tr>
<th>Property taxes levied in Nebraska by:</th>
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</tr>
</thead>
<tbody>
<tr>
<td>60% School districts</td>
<td>1.9%</td>
<td>NRDs</td>
</tr>
<tr>
<td>16% Counties</td>
<td>1.3%</td>
<td>Rural fire districts</td>
</tr>
<tr>
<td>10% Cities &amp; villages</td>
<td>0.9%</td>
<td>ESUs</td>
</tr>
<tr>
<td>5.5% Community colleges</td>
<td>0.4%</td>
<td>Townships</td>
</tr>
<tr>
<td>4% Miscellaneous districts (SIDs etc)</td>
<td>100%</td>
<td>total</td>
</tr>
</tbody>
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10 of 22
Ag property tax issues

- Nebraska property taxes on agricultural land are 146% of the US average 1950-2017 as a percentage of net ag income—so very high Neb agland property taxes 😎
- 2007: Neb net farm income $2 billion, property taxes paid $606 million, 20.6% of net farm income
- 2017: Neb net farm income $2.7 billion, property taxes paid $1.3 billion, 48% of net farm income
- Neb agland property taxes are higher than in most other states and take a very high percentage of net farm income

agland property taxes

- Agland property taxes assessed
  - (& due in the following year):
    - 2012: $769 million
    - 2013: $893 million—up 16%
    - 2014: $1 billion—up 12%
    - 2015: $1.16 billion—up 16%
    - 2016: $1.2 billion—up 3%
    - 2017: $1.2 billion—no change
    - 2018: $1.18 billion—down 2%
Residents in highly agricultural counties pay more in taxes

Property and Income Taxes per person, 2015

Areas with Least Ag Land* vs Areas with Most Ag Land*

*Areas with Least Ag Land are Nebraska counties where ag land is less than 25% of the county’s total real property valuation. Areas with Most Ag Land are Nebraska counties where ag land consists of 60% or more of the county’s total real property valuation.

Note: Amounts are net of Property Tax Credit and Homestead Exemption

Sources: US Census Bureau, NE Department of Revenue

How These Inequities Play Out

Equalized District

- Federal Receipts 7.58%
- Other Local Receipts 8.24%
- State Aid 35.02%
- Local Property Taxes 39.32%
- Other State Receipts 9.84%

Non-Equalized District

- Other Local Receipts 3.95%
- Federal Receipts 2.91%
- Other State Receipts 14.88%
- State Aid 0.00%
- Local Property Taxes 78.25%

Source: Nebraska Department of Education 2016/17 Annual Financial Reports
**LB829 — “30% solution”**

- Property tax initiative petition—would have been on 2018 ballot
- Would have provided refundable state income tax credits for 50% of k-12 property taxes (about 30% prop tax paid)
- Property value × property tax rate × 30%
- $150,000 house × 1.6% × .3 = $720 refund
- $2.5 million farm × 1.2% × .3 = $9,000 refund
- Would have cost about $1.1 billion, 25% of state GF budget
- Zero out state agencies budget & cut NU budget 50% = $1.15 billion [Gov Ricketts]
- Or else increase sales tax 64%, income tax 39% or sales & income taxes 24%.

**Sales tax options**

- Applying sales tax to untaxed services possible source of property tax relief funding
  - Avoid sales tax on business expenditures (“intermediate goods”) to not make Neb products more expensive
  - $198 million: physicians
  - $194 million: non-profit purchases
  - $183 million: motor fuels
  - $166 million: groceries
  - $164 million: Rx’s & Rx home health care equip
  - $163 million: legal services
  - $141 million: dentists
  - $133 million: real estate agents
  - $20 million: other outpatient services
  - $19 million: motor vehicle cleaning & repair
  - $16 million: pet related services
  - $13 million: home repair etc services
  - $11 million: personal services (hair, nail care)
  - $8.6 million: storage & moving services
  - $7 million: accounting services
  - $7 million: chiropractors
  - $6 million: investment advice
  - $4.5 million: mental health counselors
  - $4.4 million: optometrists
  - $4 million: other personal services (weight loss, tattoo, funeral & cremation, etc)
  - $2.6 million: dry-cleaning & clothing repair
  - $2 million: travel agencies
  - $1 million: taxi, limo & other transport services
  - About $1.17 billion in total
2019 major property tax/school funding bills

- Governor: const amdt to limit proptax spending 3%/year
  - Proptax credit fund increase $51 million/year
  - School aid increase $50 million/year
  - Capitalized earning test for agland valuation
- LR3CA (Erdman): const amdt to give refundable state income tax credits for 35% of property tax payments
  - Similar to LB829 “30% solution”
- Several other bills to broaden sales taxes, change school aid formula, etc.

2019 bills, con’t

- Rev Comm chair Sen. Lineham (Elkhorn) LB289 (late)
  - Broadened sales tax base & raised rate 0.75% (to 6.25%)
  - Increase state aid to cover 33% of every student’s cost
  - Limit k12 spending to inflation + enrollment increases
- Lots of sales tax pushback;
  - IMO urban schools did not like state aid changes
  - Proptax relief supporters could not break filibuster
- Some LB289 supporters voted against LB720, state econ dev program rewrite to link the two bills in 2020 session
2020 prospects

- LB974: Revenue Committee bill that would
  - increase per-student school aid over 3 years
  - would lower property valuation for school taxes purposes
  - would pay for most increased school aid by temporary budget surpluses
- opponents include Omaha & Lincoln school districts, who would likely lose funding under LB974.
- political question is whether rural senators will withhold state economic development program votes if they don’t get urban senator property tax relief votes—watch for this
- the contest—to urban senators who will decide the outcome of property tax reform--is between farmers & ranchers vs. Lincoln & Omaha school kids.

“35% solution”

- LB3CA: rewrite of LB829
- Would require refundable state income tax credits for 35% of taxpayer’s property taxes
- $150,000 house x 1.6% x .35 = $840 refund
- $2.5 million farm x 1.2% x .35 = $10,500 refund
- If approved by voters, refunds would cost ~33% state budget
  - If no state tax increase, cut state spending 33%
  - 17% sales & income tax increase would cover 50% of refunds
  - 33% sales & income tax increases would cover all refunds
- Hopefully Unicameral & Gov don’t want to deal with this, will enact a “grand bargain” compromise & oppose LR3CA if it gets on the ballot ☺️