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2020 Nebraska Property Tax Issues

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Cornhusker Economics

2020 Nebraska Property Tax Issues

Market Report	Year Ago	4 Wks Ago	2-21-20
Livestock and Products,			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	126.50	124.00	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	178.24	176.98	179.59
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	145.83	150.40	146.74
Choice Boxed Beef, 600-750 lb. Carcass.	217.72	214.78	205.71
Western Corn Belt Base Hog Price Carcass, Negotiated	45.67	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	58.78	77.21	70.53
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	133.16	NA	161.31
National Carcass Lamb Cutout FOB.	377.13	421.58	422.32
Crops,			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.97	4.37	4.07
Corn, No. 2, Yellow Columbus, bu.	3.49	3.68	3.63
Soybeans, No. 1, Yellow Columbus, bu.	8.08	8.27	8.17
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.55	5.91	5.75
Oats, No. 2, Heavy Minneapolis, Mn, bu.	3.19	3.32	3.30
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	177.00	*	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	105.00	107.50	*
Grass Hay, Large Rounds, Good Nebraska, ton.	85.00	95.00	95.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	140.00	149.00	141.64
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	51.00	50.00	50.67
* No Market			

Nebraska property taxes are the ninth highest in the United States. Nebraska ranks 41st in terms of property taxes (a smaller number means lower property taxes, while a higher number means higher property taxes). By comparison, Missouri ranks 7th, Colorado is 14th, Kansas is 20th, South Dakota is 22nd, Iowa is 35th, and Wyoming is 39th. So Nebraska property taxes are high both regionally and nationally.

Nebraska sales taxes are the ninth lowest, and both state income taxes and total state taxes are in the middle. Property taxes account for 38% of total state and local tax collections in Nebraska, the highest of any tax. Sales taxes are 29% of total tax collections, and income taxes are 26%. Homeowners pay 47% of Nebraska property taxes; farmers and ranchers pay 29% and commerce and industry pay 17%. If property taxes, sales taxes and income taxes were equalized as sources of state and local revenue, property taxes would need to be reduced over \$600 million.

Sixty percent of Nebraska property taxes go to K-12 education funding. Nebraska state school aid is the second lowest in the U.S., while the local share of K-12 school spending is the second highest. Nebraska property taxes on agricultural land historically have been high relative to other states as a percent of net farm income. Since 1950, Nebraska property taxes on agricultural land have been 46% higher than the United States average. In 2017 agricultural property taxes paid were 47% of Nebraska net farm income. When other taxes are taken into account, this means that most Nebraska farm-

ers or ranchers were paying 50-60% of their net farm income in taxes.

This agricultural property tax crisis has led to two efforts to place property tax relief proposals on the ballot. The 2018 initiative would have given property taxpayers a refundable state income tax credit of 30% of property tax payments, effectively reducing property taxes 30%. It also would have cost the state treasury \$1.1 billion, 25% of the General Fund budget, and would have forced sharp cuts in state spending, major increases in state sales and income taxes, or both.

The 2018 initiative campaign was called off April 27, 2018, and did not appear on the 2018 ballot. However, property tax reduction groups are attempting to place a new version on the 2020 ballot, called the "35% solution." This proposal would give property taxpayers a refundable state income credit of 35% of property taxes paid. It would work like this for a homeowner: \$150,000 house x 1.6% tax rate x .35 = \$840 refund. For a farmer or rancher it might look like this: \$2.5 million farm x 1.2% tax rate x .35 = \$10,500 refund.

Implementing the proposed 35% solution would cost \$1.5 billion, which would require even larger state spending cuts and/or state sales and income tax increases. If Nebraska lawmakers cut state spending \$750 million and increased state sales and income taxes \$750 million, the tax increase would be 17%. If there were no spending cuts, sales and income taxes would increase by 33%. If there were no state tax increases, state general fund spending would need to be cut one third.

To avoid these sharp tax increases and spending cuts, lawmakers have tried to find a political path to property tax relief with enough votes to overcome legislative filibusters (33 votes) and a possible gubernatorial veto (30 votes). Several property tax relief bills were introduced in 2019 and a consensus bill, LB289, emerged late in the session. The product of intense negotiations among Revenue Committee members and other senators active in the property tax-school finance debate, LB289 would have ended several sales tax exemptions, increased the state sales tax rate, increased state aid to all schools, and limited school spending increases. Every item on this list is politically controversial, and LB289 came up five votes short of the 33 votes needed to end a legislative filibuster. The proposal would have provided between \$350 and \$500 million in property tax relief.

Rural senators did manage to tie passage of property tax reform with reform of state economic development programs. The economic development program overhaul, LB720, stalled when a handful of rural senators withdrew their support after the property tax relief proposal was filibustered. This political hardball does provide an improved chance that if enough common ground can be negotiated, both property tax relief and economic development bills could be enacted in 2020.

The 2020 property tax relief bill is LB974. Floor debate of the bill began February 19. In broad outline, it is very similar to LB289 but excludes any sales tax changes. LB974 would lower property values for school taxation for agricultural, residential, commercial and industrial real estate over three years. Agricultural land values would decline from 75% to 55% of market value leading, on average, to about a 20% property tax reduction. Residential, commercial and industrial property would decline from 100% to 87% leading, on average, to an 8% property tax reduction.

There are many challenges and uncertainties ahead. Urban school districts fear they would lose state school aid and that reduced property values would prevent them from covering with increased property taxes. School districts across the state will want to evaluate the impact on them of modifying the complex state school aid formula. The Governor might veto LB974 and the legislative veto override attempt might fall short. The proposed 35% solution may be on the 2020 ballot and voters could find it more attractive than LB974. The way ahead is anything but clear. But significant progress was made in 2019--LB289 appeared to have the support of at least 28 senators, which is something to build on. Stay tuned, and hold on to your hat--it is likely to be a bumpy ride.

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