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2019 Nebraska Property Tax Issues

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Cornhusker Economics

2019 Nebraska Property Tax Issues

Market Report	Year Ago	4 Wks Ago	7-19-19
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	114.00	112.40
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	160.00	170.33	173.66
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	162.05	150.28	151.70
Choice Boxed Beef, 600-750 lb. Carcass.	204.32	222.11	213.11
Western Corn Belt Base Hog Price Carcass, Negotiated	66.68	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	81.14	81.75	76.40
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	162.44	163.93	160.86
National Carcass Lamb Cutout FOB.	383.96	392.83	405.55
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	461	4.26	3.89
Corn, No. 2, Yellow Columbus, bu.	3.44	4.63	4.23
Soybeans, No. 1, Yellow Columbus, bu.	7.78	8.14	8.02
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.31	7.14	6.46
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.82	3.23	3.06
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	180.00	*	172.75
Alfalfa, Large Rounds, Good Platte Valley, ton.	110.00	110.00	125.00 delivered
Grass Hay, Large Rounds, Good Nebraska, ton.	100.00	97.50	100.00
Dried Distillers Grains, 10% Moisture Nebraska Average.	105.00	133.50	149.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	36.83	50.00	43.25
* No Market			

Nebraska property taxes are the tenth highest in the United States, sales taxes are the ninth lowest, and both 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%. 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 property taxes go to K-12 education funding. Nebraska state school aid is the second lowest in the United States, while the local share of K-12 school spending is the second highest.

Nebraska property taxes on agricultural land historically have been high in Nebraska relative to other states as a percent of net farm income. Since 1950, Nebraska property taxes on agricultural land are 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 farmers 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 as well as major increases in state sales and income taxes.

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 tax payers 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 tax increases. If Nebraska lawmakers cut state spending \$750 million and increased state sales and income taxes \$750 million, the state 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 reduced 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 likely 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

1. raised the state sales tax rate from 5.5% to 6.25%, a 14% increase;
2. begin collecting sales taxes on candy, pop, bottled water, plumbing services, moving services and veterinary services for pets, among others;
3. increased cigarette taxes 56% to \$1/pack;
4. provided state school aid of 33% of total education costs per pupil to all schools; and
5. limited school spending increases to consumer price index increases and growth in student numbers.

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-\$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—was 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 before next January, both LB289 and LB720 could be enacted early in the 2020 legislative session.

There are many challenges and uncertainties ahead. Urban senators may feel their constituents are not being treated fairly under LB289—urban taxpayers will pay much of the higher sales taxes paying for property tax relief, but most of the increased school aid and property tax relief will go to rural areas. School districts across the state will want to evaluate the impact to them of modifying the complex state school aid formula. Counties in flooded areas may need state financial assistance in rebuilding damaged roads and bridges. Agricultural land property values could continue their gradual decline and be joined by associated declines in agricultural land property taxes assessed and paid (which most agricultural landowners would welcome). The Governor might veto LB289 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 LB289. 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 very bumpy ride.

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