



Clear thinking for
a stronger Nebraska

About OpenSky Policy Institute

The best choices are informed choices. At OpenSky, we work to make sure lawmakers and other leaders have quality data and research to make decisions that help our communities thrive.

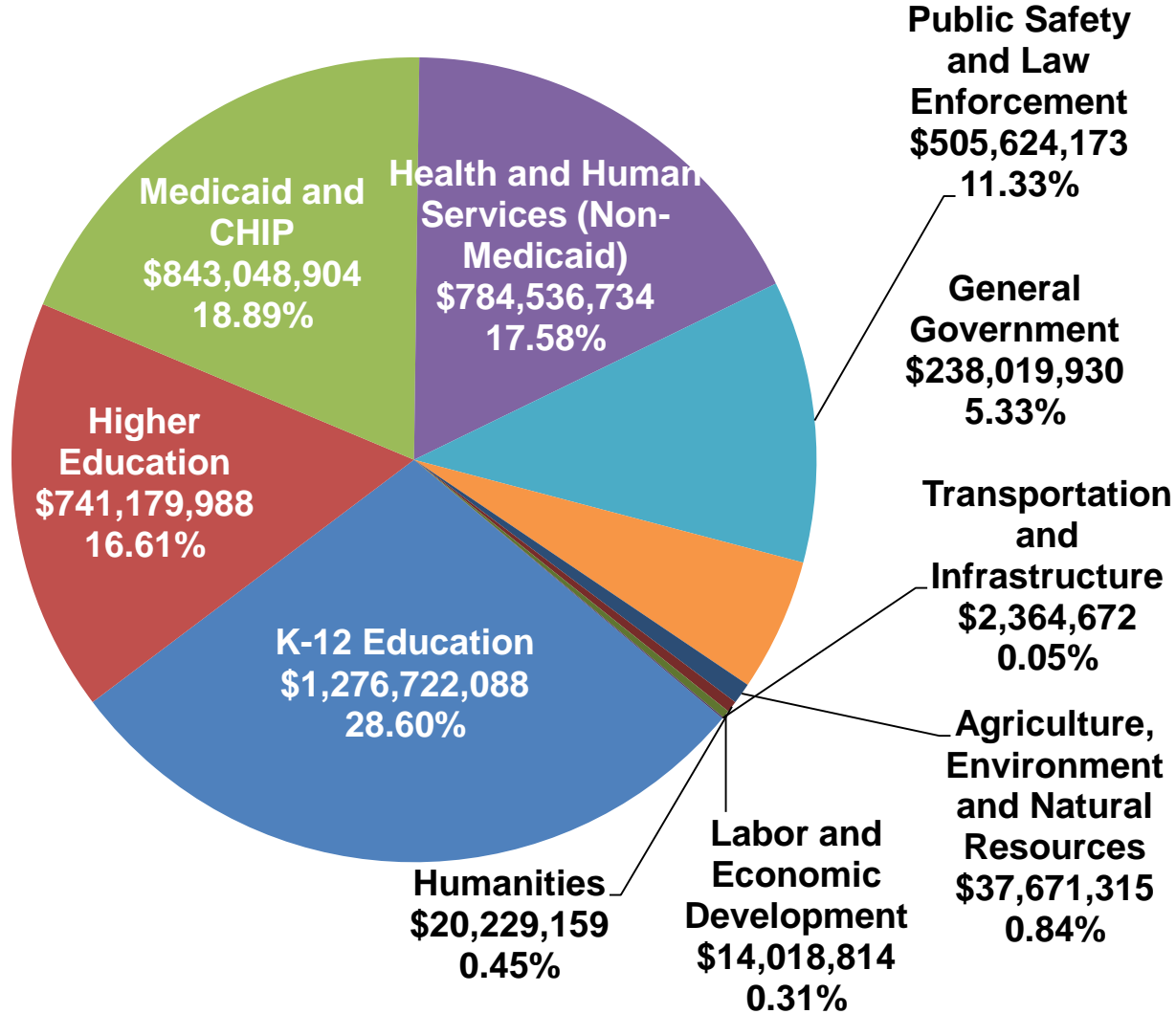
We are **non-partisan** and focus on **tax, budget, and education finance** policy in Nebraska.

Today's Presentation:

- Overview of state budget and tax system
- What is ahead of us:
 - Further budget cuts
 - Property Tax Reform?
 - “Comprehensive Tax Reform”?
 - Federal uncertainty

Education, Health Care Top Appropriations

General Fund Appropriations, FY 18-19

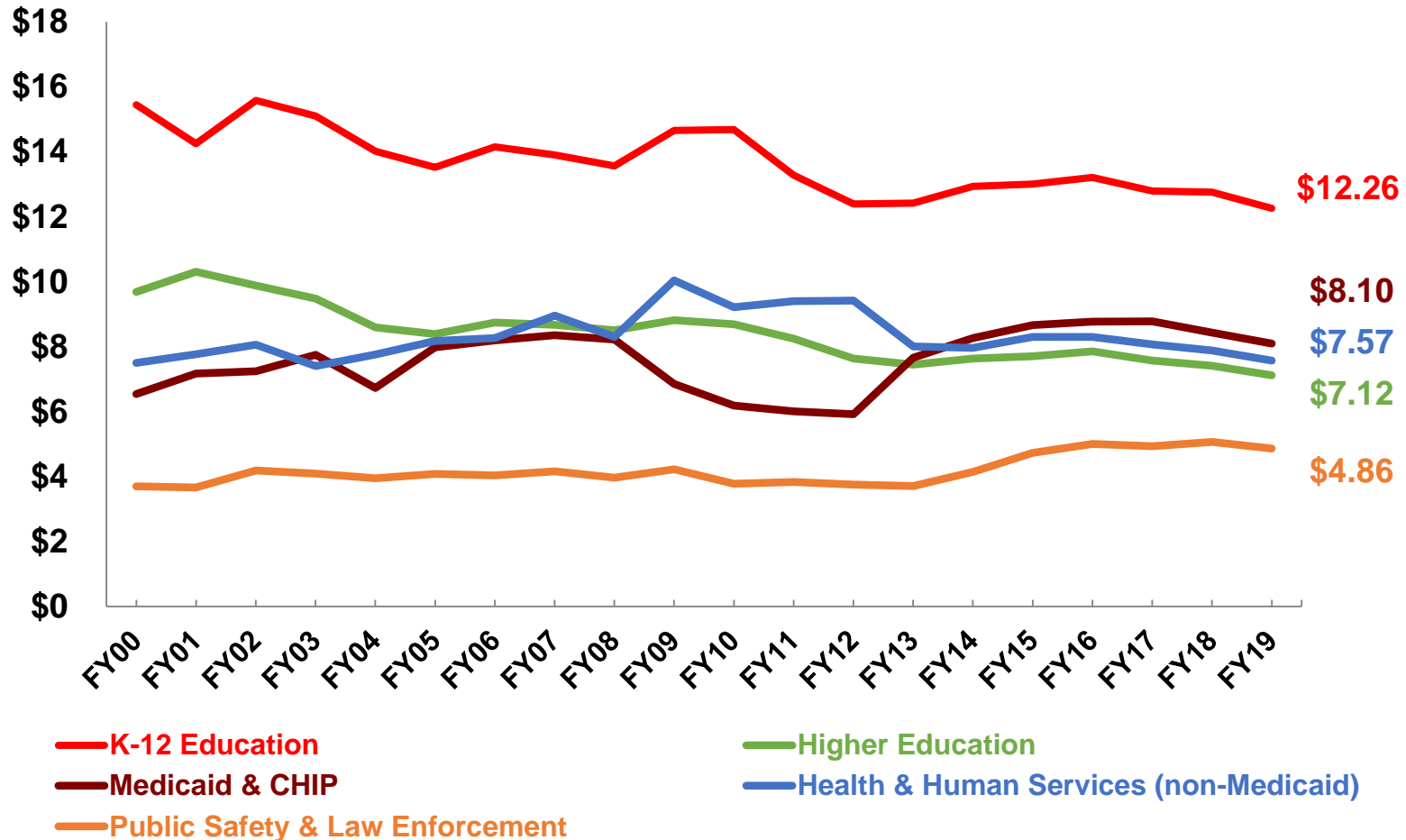


Total: \$4.463 billion

Source: OpenSky analysis of data from Legislative Fiscal Office. Note: Percentages do not sum to 100 due to rounding

Appropriations Trends in Major Budget Areas

General Fund Appropriations per \$1,000 of NE Personal Income,
FY99 to FY19



Sources: NE Legislative Fiscal Office, US Bureau of Economic Analysis, Appropriation Committee Biennial Budget FY18-FY19, April 2017.

Budget Actions - 2017 Session

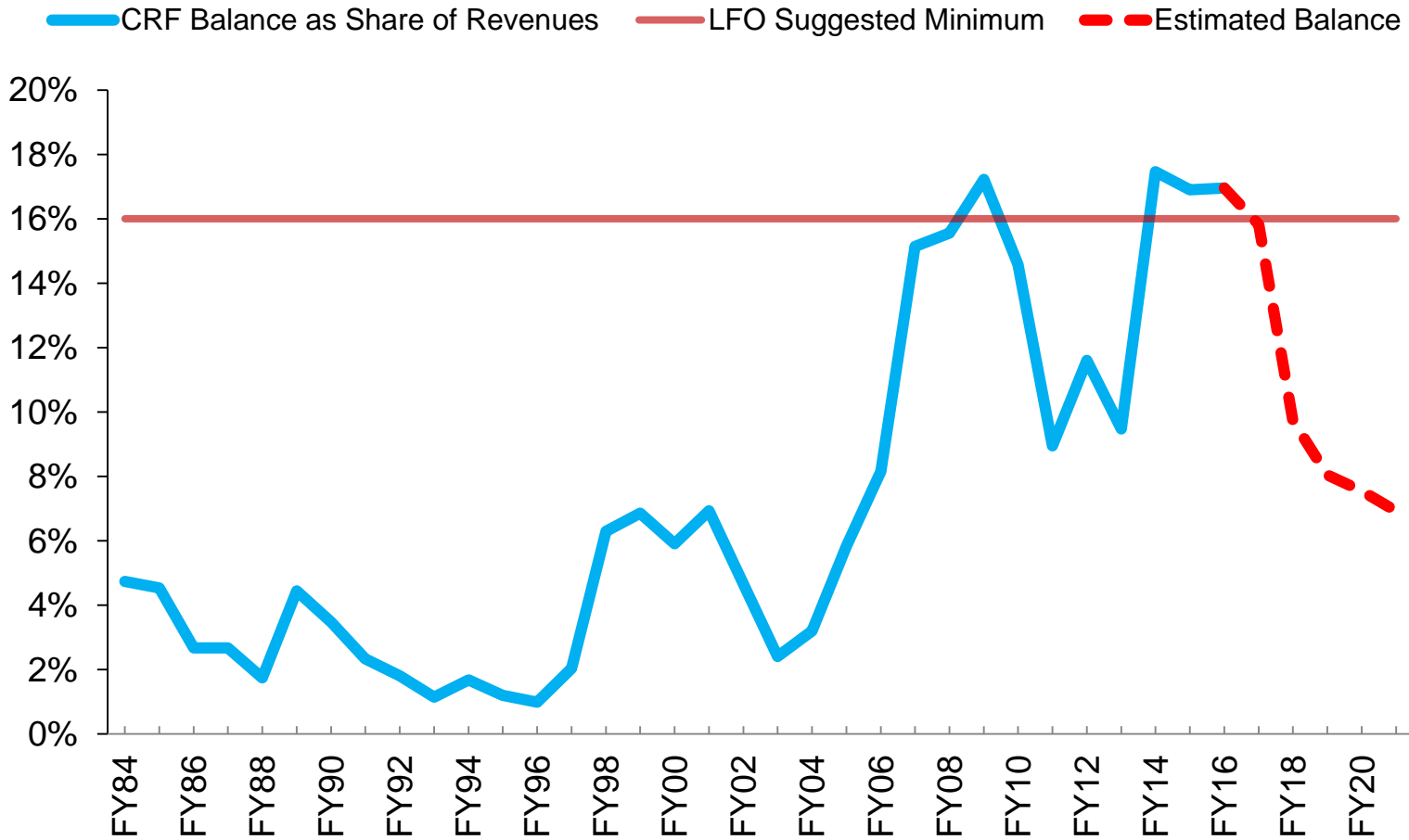
\$895M Budget Shortfall – Jan 2017

- Reductions – University; Medicaid, Child Welfare, Developmental Disability, BH rates
- Lower spending on K-12 education
- Transfers from cash funds (\$124M)
- \$173M from Cash Reserve

Source: Legislative Fiscal Office, “State of Nebraska FY2017-18/FY2018-19 Biennial Budget,” August 2017.

Rainy Day Fund Departing from Minimum Recommended Levels

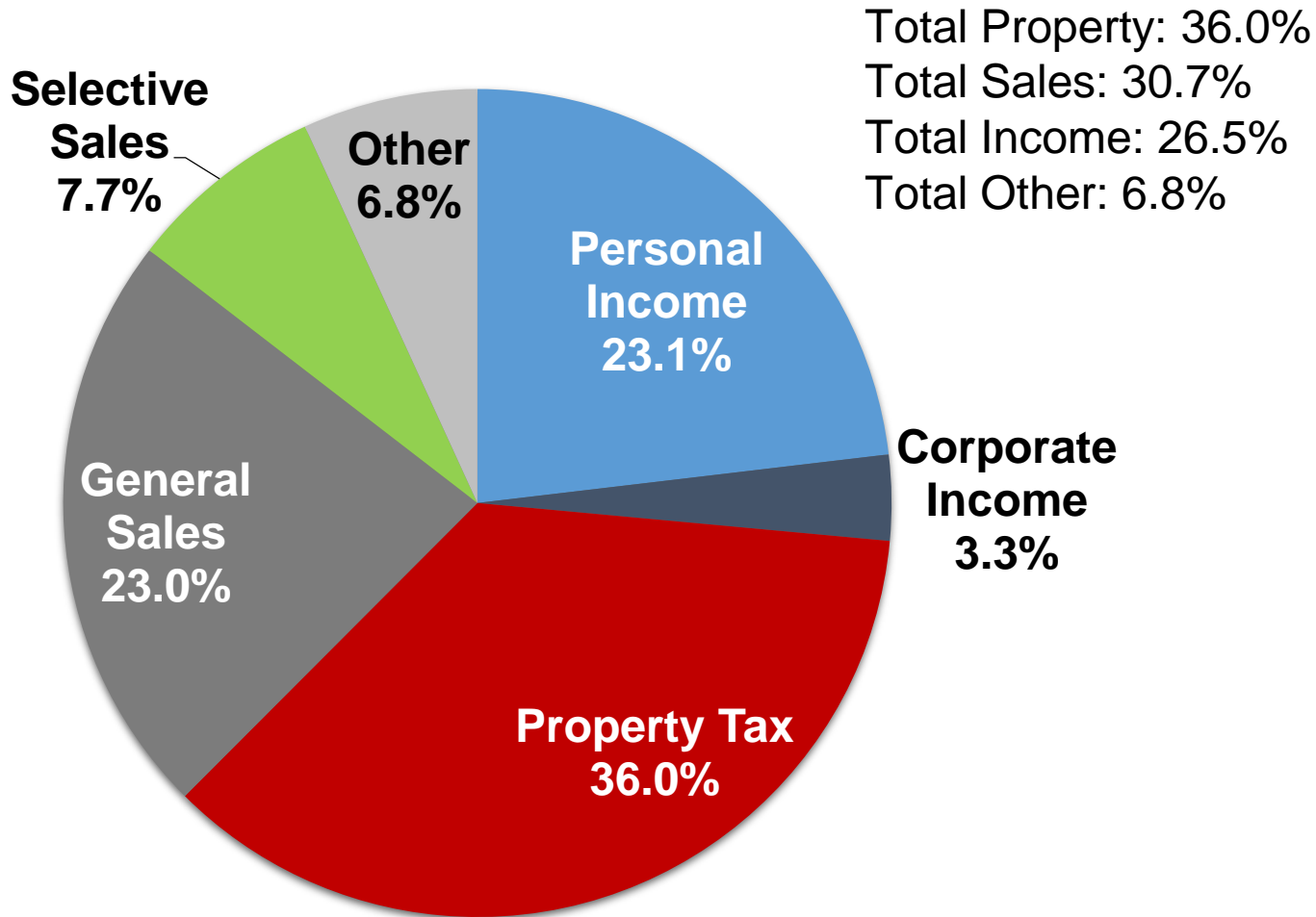
Cash Reserve Fund Balance as Share of General Fund Revenue, FY 83-84 to FY 20-21



Sources: Legislative Fiscal Office, Nebraska Economic Forecasting Advisory Board

Nebraska's Three-Legged Stool

State and Local Taxes by Type, FY 13-14



NE not a high tax or spending state

2014 Rankings (U.S. Census Bureau)	Per Capita	Per \$1k of Personal Income	Per \$1k GDP
State & Local Taxes	15 th	18 th	28 th
State & Local Spending (Direct Expenditures)	24 th	33 rd	45 th
Individual Income Tax	16 th	22 nd	27 th
Corporate Income Tax	19 th	20 th	23 rd
Sales Tax	19 th	22 nd	28 th
Property Tax	12 th	12 th	14 th

Source: US Census Bureau 2014 Census of State and Local Government Finances; US Bureau of Economic Analysis.

Major Tax Changes Since 2006

Legislative Tax Changes '06-'15*	Impact to FY17 Revenue
Direct Revenue Impact to the State	-\$487,562,517
<u>By Tax Type:</u>	
Individual Income Tax	-\$267,949,523
Corporate Income Tax	-\$7,679,793
Sales Tax	-\$180,927,783
Miscellaneous Tax	-\$31,005,418
Indirect Revenue Impact to the State (property)	-\$267,370,320
Total Revenue Impact (FY17)	-\$754,932,837
2016 Legislative Tax Changes	Additional impact in FY18-FY19
Additional Direct Revenue Impact	-\$21,707,000
Additional Indirect Revenue Impact	-\$40,000,000
Total Additional Impact (FY18)	-\$61,707,000

*Does not include Nebraska Advantage

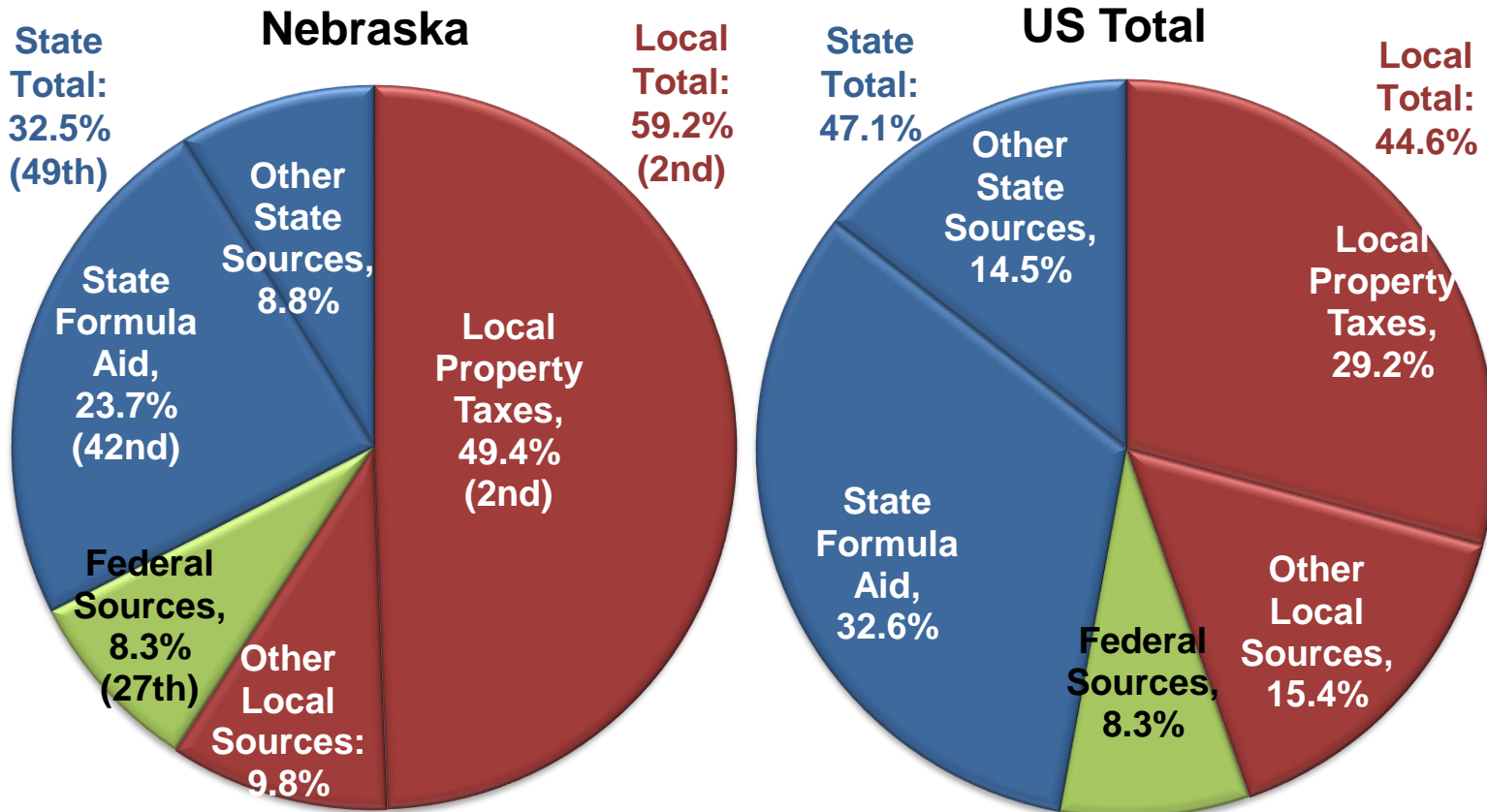
Budget and Revenue Situation

- FY18/19 Biennial budget growth 0.6% for biennium. (compared to 4.1% projected growth)
- 0.3% adj. revenue growth FY17 compared to projected revenue growth of 5.4% avg for FY18 & FY19
 - Down \$7.6m (-2.8%) for FY18 (July)
- Tax incentives spiked \$160m in 2016 for a total of \$295m
- Cash reserve - \$369.1M Balance FY19 (7.5% GF Approps, 6.9% of Net Receipts)

Property Tax Reform

- Not a “school spending problem”
- How to address the structural imbalance – heavy reliance on property taxes to fund K-12 education.
- Need revenue to replace property tax reliance.
- How to best target that property tax relief to achieve desired impact?

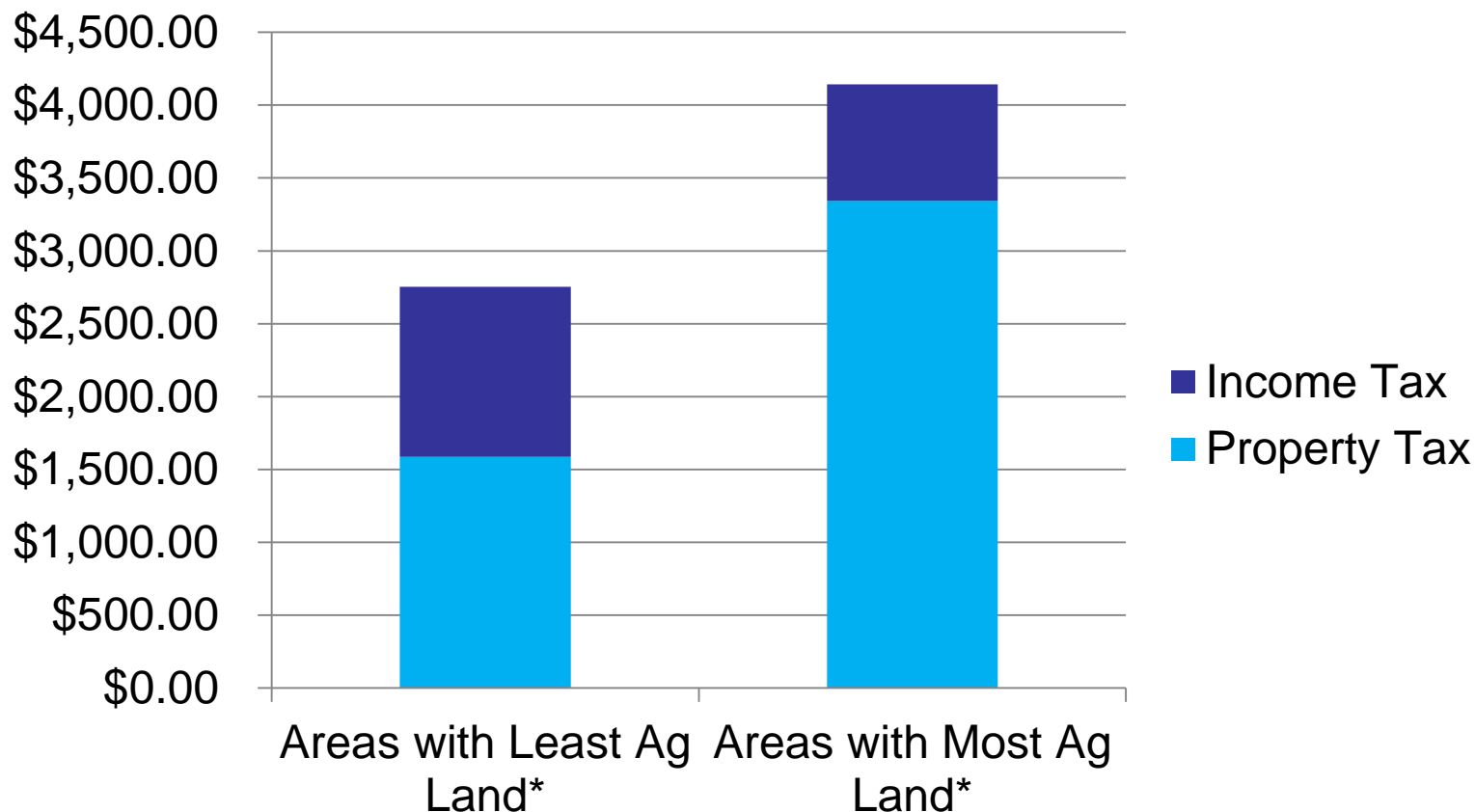
How NE Compares to the National Average in Total Education Funding



Source: US Census Bureau, 2015 Annual Survey of School System Finances

Residents in highly agricultural counties pay more in taxes

Property and Income Taxes per person, 2015



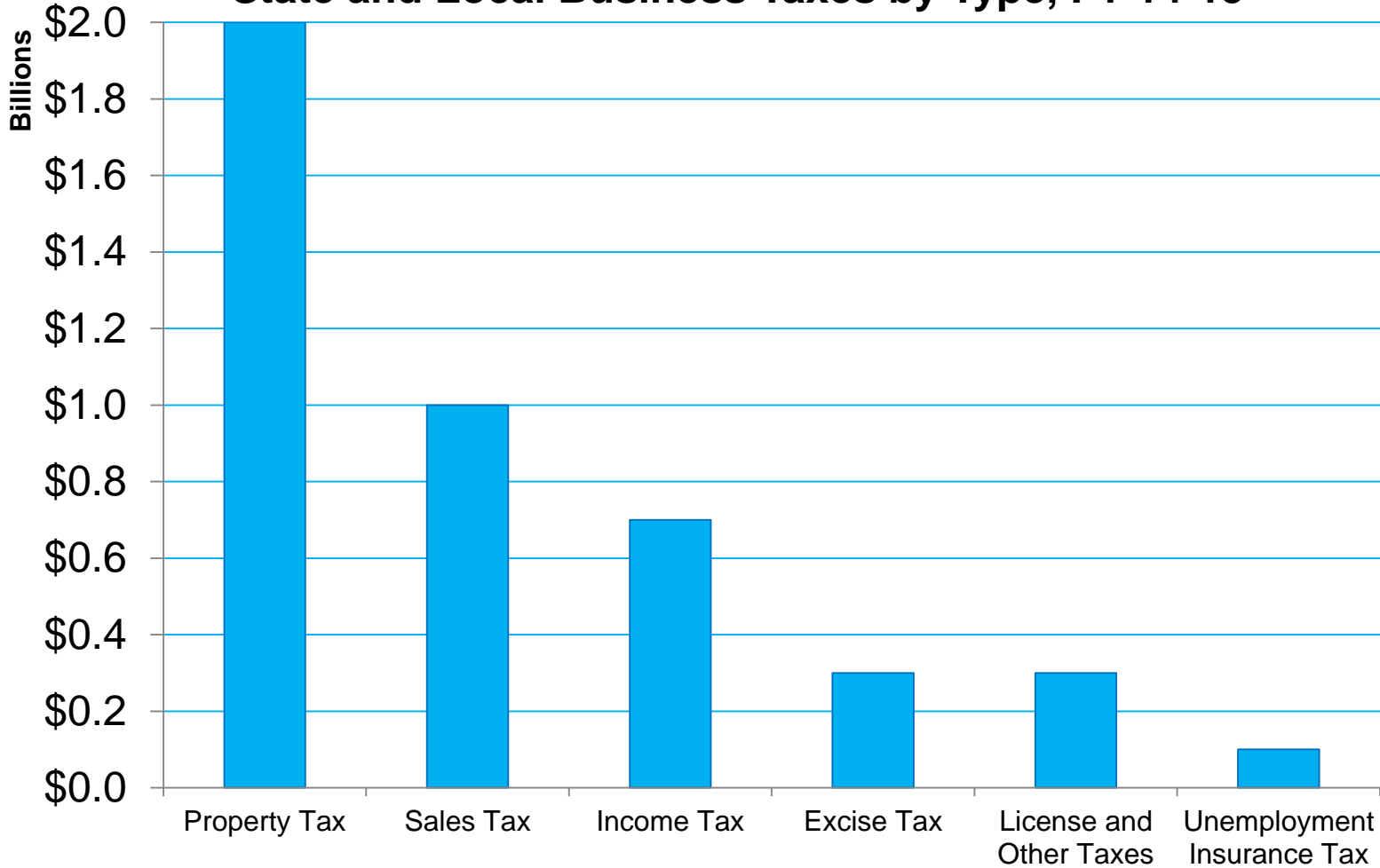
*Areas with Least Ag Land are Nebraska counties where ag land is less than 20% of the county's total real property valuation. Areas with Most Ag Land are Nebraska counties where ag land consists of 60% or more of the county's total real property valuation..

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

Sources: US Census Bureau, NE Department of Revenue

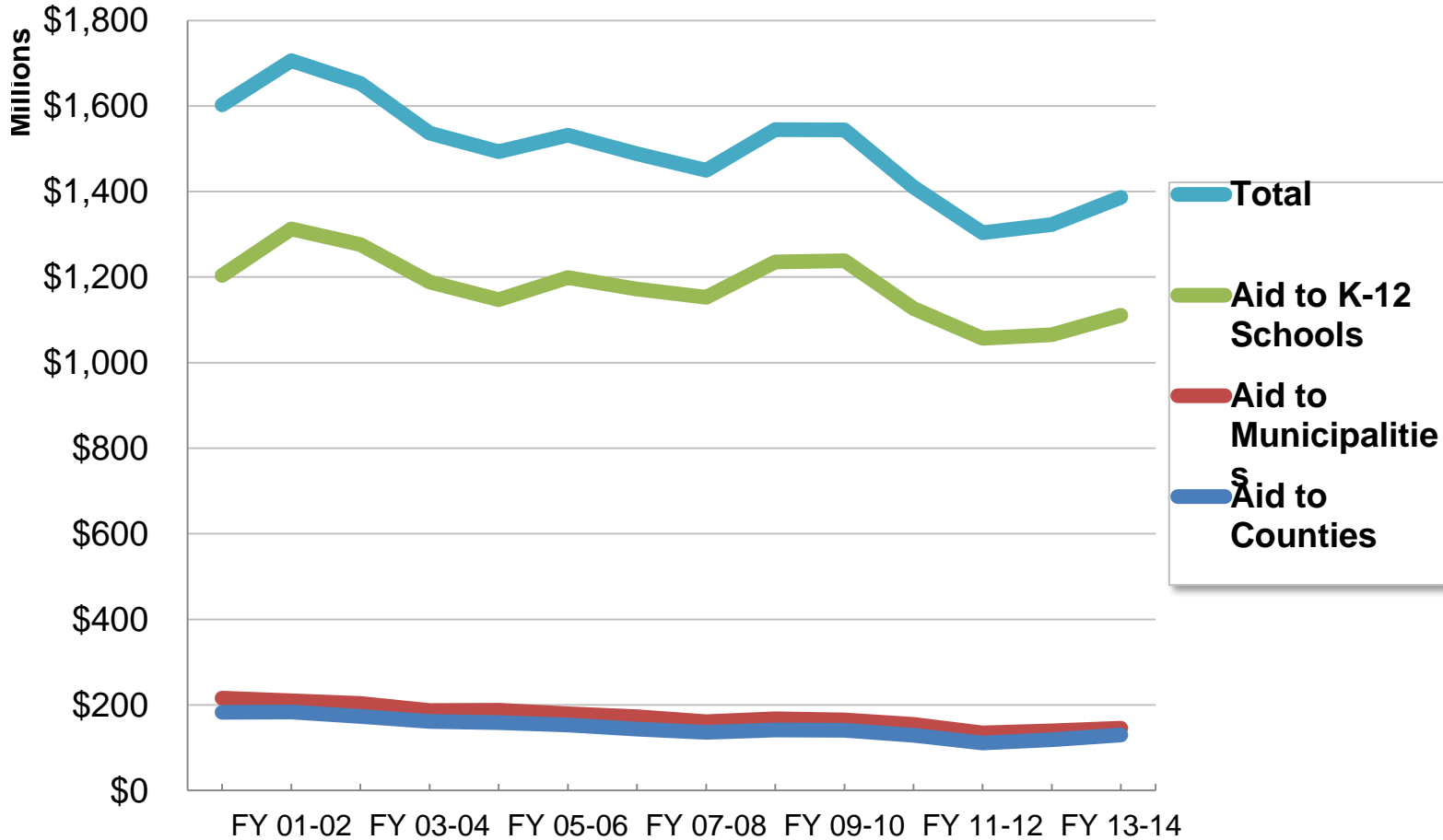
Property Tax Is Largest Tax for Nebraska Businesses

State and Local Business Taxes by Type, FY 14-15



Aid to Local Governments Has Declined

State aid to local governments, adjusted for economic growth, FY 00-01 to FY 13-14



Sources: OpenSky analysis of State Auditor of Public Accounts local budgets, Legislative Fiscal Office, Department of Revenue, and US Bureau of Economic Analysis Personal Income data.

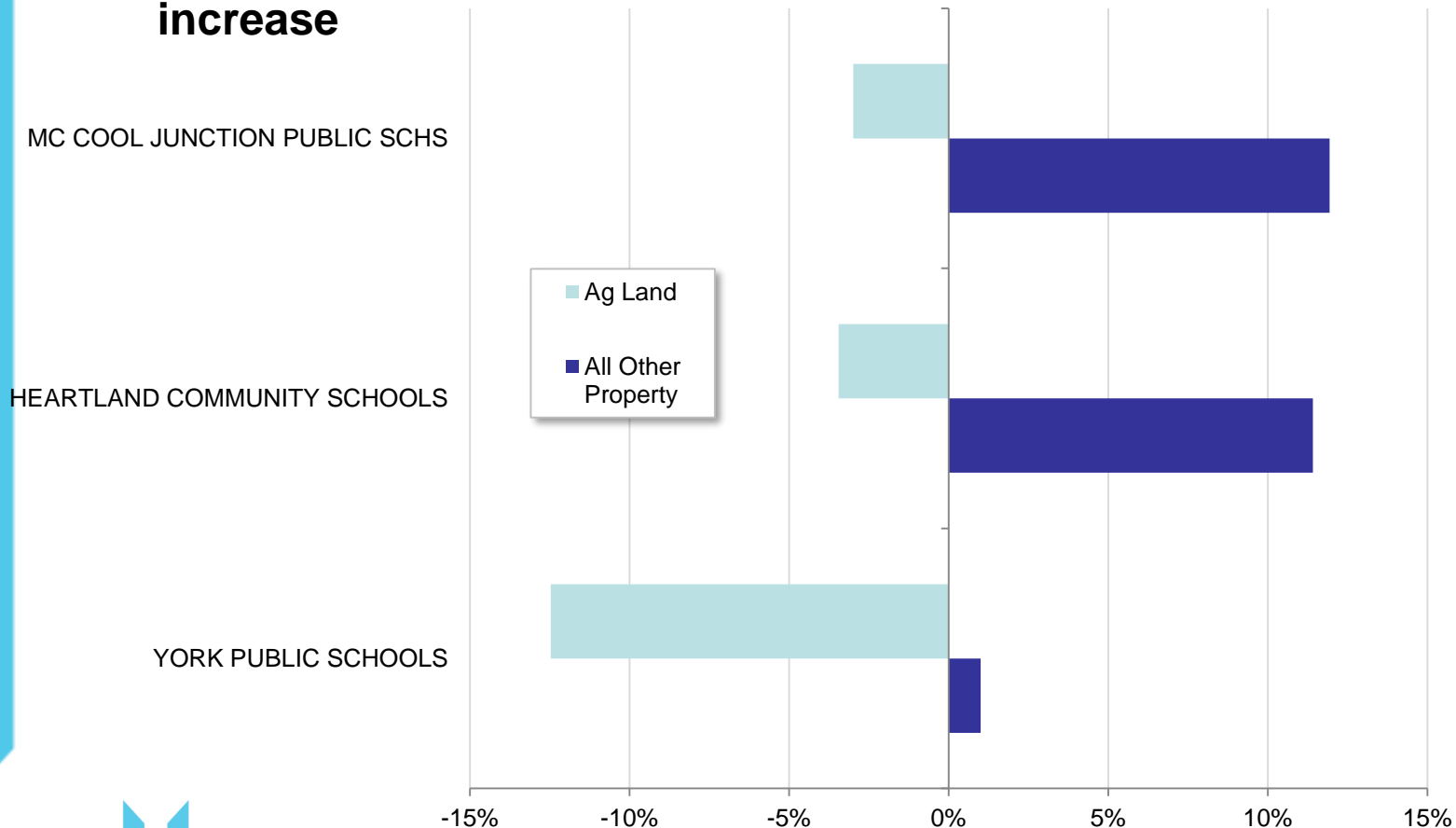
Recent efforts to address property taxes:

- Property Tax Credit Program & additional credit for ag land (\$224M)
- Changing the taxable value of ag land from 75% to 65% of market value
- Capping property valuation increases at 3%
- Per student aid proposals

75% to 65% Taxable Value for Ag

- Disparate impact, Creates a shortfall for schools and local governments, which will likely result in increased levies

Percent change in school property tax, with TEEOSA increase



Ag Land - 3% Growth Cap

- If in effect since 2005, ag land would be taxed at 30.7% of current market value, and 58 counties would have had to exceed their levy limits to make up the loss of revenue.
- Had it been in place in 2017, the one year revenue loss for counties would have been \$31m.
- Like 75/65, farmers and ranchers in the high-ag areas would see the largest levy increases and the smallest real tax reductions, while other homeowners and businesses in those counties would face significant tax increases.
- “30 years of experience suggests that these limits are among the least effective, least equitable, and least efficient strategies available for providing property tax relief.” Lincoln Institute of Land Policy

Other ideas to address property taxes:

- 50% refundable income tax credit for education property taxes paid: \$1B+
- Increase the allocated income tax to 20% as originally intended (\$82M in FY17)
- Reduce the taxable value of ag land to 65% in TEEOSA (\$25M in FY18)
- Nebraskans United and Reform for Nebraska's Future are both working on packages for session/ballot

Potential revenue sources:

- Internet sales tax
- Increase sales tax rate
- Expand sales tax to groceries, soda, candy, bottled water, etc.
- Increase cigarette tax
- Modernize sales tax to include services
- Local income surtax
- Increase income tax rates/new upper bracket
- Business tax incentive reform
- TIF reform

Comprehensive Tax Reform

Income Tax + Property Tax

LB 461

- Would have cut top income and corporate rates, primarily through “triggers” based on projected revenue growth (\$413 m revenue loss when fully implemented)
- Replaced ag land market valuation method with income-earning capacity defined as agricultural use value
- Ag use value must fall between 55-65% of market value; Caps annual aggregate increases in ag land valuation growth by 3.5% per year
- At the end of the day, primarily an income tax cut that reduces valuation of ag land to between 55 & 65%

What lies ahead?

- What will happen with state revenues?
- Uncertainty at federal level
- Continued efforts to reduce property and income taxes
- Tax reform? (evaluating existing tax expenditures, reforming business incentives, sales tax on services)
- Discussion about policy changes to be made in anticipation of a more expensive population/ fewer working age residents

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