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

- K-12 Education: $1,276,722,088 (28.60%)
- Higher Education: $741,179,988 (16.61%)
- Medicaid and CHIP: $843,048,904 (18.89%)
- Health and Human Services (Non-Medicaid): $784,536,734 (17.58%)
- Public Safety and Law Enforcement: $505,624,173 (11.33%)
- General Government: $238,019,930 (5.33%)
- Transportation and Infrastructure: $2,364,672 (0.05%)
- Agriculture, Environment and Natural Resources: $37,671,315 (0.84%)
- Humanities: $20,229,159 (0.45%)
- Labor and Economic Development: $14,018,814 (0.31%)

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

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

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

Source: US Census Bureau, State and Local Finances data

- Personal Income: 23.1%
- Corporate Income: 3.3%
- Property Tax: 36.0%
- General Sales: 23.0%
- Selective Sales: 7.7%
- Other: 6.8%

Total Property: 36.0%
Total Sales: 30.7%
Total Income: 26.5%
Total Other: 6.8%
### NE not a high tax or spending state

<table>
<thead>
<tr>
<th>2014 Rankings (U.S. Census Bureau)</th>
<th>Per Capita</th>
<th>Per $1k of Personal Income</th>
<th>Per $1k GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>State &amp; Local Taxes</td>
<td>15&lt;sup&gt;th&lt;/sup&gt;</td>
<td>18&lt;sup&gt;th&lt;/sup&gt;</td>
<td>28&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>State &amp; Local Spending</td>
<td>24&lt;sup&gt;th&lt;/sup&gt;</td>
<td>33&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>45&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>(Direct Expenditures)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>16&lt;sup&gt;th&lt;/sup&gt;</td>
<td>22&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>27&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>19&lt;sup&gt;th&lt;/sup&gt;</td>
<td>20&lt;sup&gt;th&lt;/sup&gt;</td>
<td>23&lt;sup&gt;rd&lt;/sup&gt;</td>
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<tr>
<td>Sales Tax</td>
<td>19&lt;sup&gt;th&lt;/sup&gt;</td>
<td>22&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>28&lt;sup&gt;th&lt;/sup&gt;</td>
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<tr>
<td>Property Tax</td>
<td>12&lt;sup&gt;th&lt;/sup&gt;</td>
<td>12&lt;sup&gt;th&lt;/sup&gt;</td>
<td>14&lt;sup&gt;th&lt;/sup&gt;</td>
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## Major Tax Changes Since 2006

<table>
<thead>
<tr>
<th>Legislative Tax Changes ‘06-’15*</th>
<th>Impact to FY17 Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Revenue Impact to the State</td>
<td>-$487,562,517</td>
</tr>
<tr>
<td><strong>By Tax Type:</strong></td>
<td></td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>-$267,949,523</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>-$7,679,793</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>-$180,927,783</td>
</tr>
<tr>
<td>Miscellaneous Tax</td>
<td>-$31,005,418</td>
</tr>
<tr>
<td>Indirect Revenue Impact to the State (property)</td>
<td>-$267,370,320</td>
</tr>
<tr>
<td><strong>Total Revenue Impact (FY17)</strong></td>
<td>-$754,932,837</td>
</tr>
</tbody>
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### 2016 Legislative Tax Changes

<table>
<thead>
<tr>
<th>2016 Legislative Tax Changes</th>
<th>Additional impact in FY18-FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Direct Revenue Impact</td>
<td>-$21,707,000</td>
</tr>
<tr>
<td>Additional Indirect Revenue Impact</td>
<td>-$40,000,000</td>
</tr>
<tr>
<td><strong>Total Additional Impact (FY18)</strong></td>
<td>-$61,707,000</td>
</tr>
</tbody>
</table>

*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

- $0.00
- $500.00
- $1,000.00
- $1,500.00
- $2,000.00
- $2,500.00
- $3,000.00
- $3,500.00
- $4,000.00
- $4,500.00

Areas with Least Ag Land

Areas with Most Ag Land

Income Tax
Property Tax
Property Tax Is Largest Tax for Nebraska Businesses

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

Source: "Total state and local business taxes," FY 14-15, Council on State Taxation and Ernst & Young
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**

<table>
<thead>
<tr>
<th>School Type</th>
<th>Ag Land</th>
<th>All Other Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>MC COOL JUNCTION PUBLIC SCHS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEARTLAND COMMUNITY SCHOOLS</td>
<td></td>
<td></td>
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<tr>
<td>YORK PUBLIC SCHOOLS</td>
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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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- Office: 402.438.0382