

the need for
BALANCE in
NEBRASKA'S
TAX SYSTEM



Nebraska's "Three-Legged Stool"
 Nebraska State & Local Tax Revenues,
 2012

Source: U.S. Census Bureau State
 and Local Government Finance Data

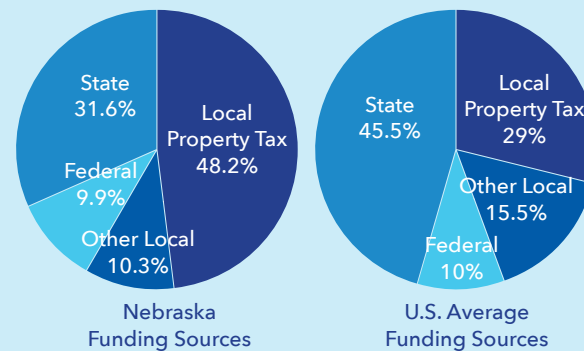
"A wobbly stool"

Ideally state revenue comes from a balanced mix of property, income and sales taxes - sometimes referred to as a "three-legged stool." This maintains stable funding for schools and other services and spreads taxes more equitably.

Nebraska's three-legged stool is out of balance as property taxes account for 36% of revenue collected - while 31% comes from sales taxes and 25% comes from income taxes. This has ramifications for school funding and puts inordinate pressure on some groups to pay for key services.



**Nebraska schools heavily
 rely on local property taxes**



Source: U.S. Census Bureau,
 2012 Annual Survey of School System Financed

The Property Tax Challenge

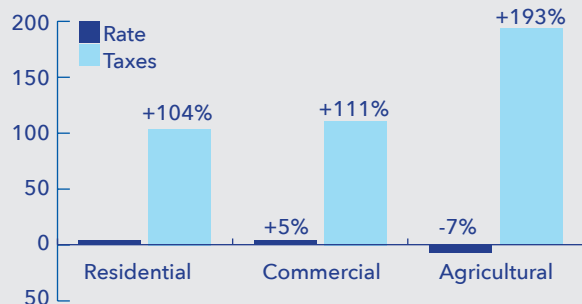
A major factor in this scenario is how Nebraska determines a community's ability to fund schools. Presently, real property value is the primary factor used to determine how much money a community has to pay for its schools. This ignores other important measures of community wealth such as income.

This scenario has placed a lot of pressure on our farmers and ranchers to pay for schools. Rural Nebraskans now pay 40% more per person in combined property and income taxes than urban residents. This reliance on our agricultural community to fund education could result in cuts to schools state-wide if agricultural land values were to drop.

Increased property taxes are not just a rural issue, however, as property tax rates have increased throughout Nebraska in recent years. Playing a role in the statewide increase in property taxes are recent cuts in state aid to schools and other local governments, which have led to increased reliance on property taxes to fund the services these entities provide.

Meanwhile, our schools have growing needs and challenges, further complicating matters for lawmakers and other state leaders who have said lowering property taxes will be their top priority this Legislative session.

So the big question is, "How can Nebraska enact property tax reform and also avoid cuts to schools and other key services?"



The Solution: Reform K-12 Funding

Only one other state is more reliant than Nebraska on property taxes to fund schools. To reduce this high reliance on property taxes to fund K-12, a broad and politically diverse group of Nebraskans has proposed reforming our school funding system to address our tax imbalance. Under our revenue neutral proposal, Nebraska would:

- **Reduce agricultural land valuation from 75 percent to 65 percent for K-12 funding formula purposes only**

This would direct more state aid to school districts with high agricultural land values without reducing revenue for other local services. Many schools that don't get equalization aid now would under this change.

- **Expand the resource calculation**

We propose adding a local income tax tied to a reduction in property taxes. This would assess a community's ability to pay based on property and income wealth, would lower property taxes across the state and would keep the local income tax revenues with the local school district. Those school districts with unmet needs can raise additional dollars by increasing their local income tax rate by a supermajority vote of the school board.

- **Create a foundation aid component**

A per-pupil amount of \$500 would go to every district, regardless of whether a school receives equalization aid or not, to help restore aid to districts that have lost equalization funding due to unprecedented growth in agricultural land values.

A Sensible Plan

Nebraskans from Omaha to Chadron have made it clear property taxes are their main concern when it comes to taxes. Under this plan:

- Property taxes would decrease by \$407.5 million;
- Income taxes would increase by \$368 million;
- State school aid would increase by \$39.4 million;
- All Nebraskans would experience lower property taxes and many residents would pay less in overall taxes;
- No school district would lose money as losses in state aid would be made up by local income tax revenue;
- Revenue for school funding will be stabilized and better able to handle economic swings; and
- Reliance on agricultural land for school funding will be reduced and with that the threat of major cuts to schools or property tax increases that would come should agricultural land valuations drop.

Percent change in rate and total taxes from 1999 to 2013. Property tax growth for agricultural land has far outpaced other property taxes.

Source: Nebraska Department of Revenue Property Assessment Division