

Taxing agricultural land at only 65 percent of its full market value – which is proposed in LB 293 and LB 350 -- would have a disparate impact on Nebraska taxpayers and would lead to revenue losses for schools, counties, community colleges and other local governments.

The revenue losses in the proposals likely would lead to cuts to services or higher property taxes for many Nebraskans.

### **Bills treat taxpayers differently**

While the intent of this proposal is to help the agricultural community, the largest benefits would not go to the most rural parts of Nebraska, but rather to farmers and ranchers near urban areas, who tend to face higher property tax levies. This is because the property tax revenue lost from farmers and ranchers near urban areas can be made up with higher property taxes on business and residential property owners in those areas.

Such tax shifts cannot occur to the same extent in more rural areas where there are not as many businesses and residential property owners. This means those high agricultural land communities must make up the lost revenue either by levy increases – which would wipe out much of the tax cut from lowering valuations – or by cuts to education, roads and other local services.

### **Bills would lead to large revenue shortfalls for schools, other localities**

LB 293 and LB 350 would create a \$138.5 million shortfall for schools and other localities, that includes a:

- \$94.2 million shortfall for K-12 schools;
- \$27.6 million shortfall for counties;
- \$9.6 million shortfall for community colleges; and
- \$7.1 million in losses for other local entities such as Natural Resource Districts, Educational Service Units, and rural fire districts.<sup>1</sup>

Current law would call for \$26.8 million more in state school aid,<sup>2</sup> still leaving K-12 schools with a shortfall of about \$67.4 million. Even if the additional state aid is funded, it would not be triggered until the second year after valuations were decreased,<sup>3</sup> and it would only benefit schools that receive equalization aid.<sup>4</sup> Counties, community colleges and other local entities would not be helped at all.

<sup>1</sup> For a complete list of local governments with property taxing authority, see [http://www.revenue.nebraska.gov/PAD/research/annual\\_reports/2012/annrpt2012\\_table\\_10.pdf](http://www.revenue.nebraska.gov/PAD/research/annual_reports/2012/annrpt2012_table_10.pdf)

<sup>2</sup> This estimate now reflects NDE's final 2015-16 state aid certification. Prior estimates were based on preliminary data. OpenSky analysis of NE Dept of Revenue 2014 data and NE Dept of Education 2015-16 State Aid Certification.

<sup>3</sup> State aid to K-12 schools is determined using data from the most recent prior year, so any aid increase resulting from lower agricultural land valuations would not materialize until the second year of the change.

<sup>4</sup> Including about 23 districts that would become equalized under the proposals.

### **Levies would need to increase to avoid service cuts**

If the state funds the \$26.8 million increase in state aid, property tax levy rates across the state would have to increase an average of 5.7 cents to avoid service cuts and at least 16 school districts and four counties would be unable to recoup their lost revenue without overriding their levy limits.<sup>5</sup>

If the state does not fund an increase in state aid, levies across the state would have to increase an average of 7.1 cents, including 13.5 cents in the most agricultural parts of the state. At least 55 school districts would be unable to make themselves whole without overriding their levy limits.

### **Conclusion**

LB 293 and LB 350 do not have a similar impact for agricultural land owners and other taxpayers across the state and threaten funding for schools and other key local services. The bill also creates a definite possibility that many Nebraskans will actually pay higher property taxes.

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<sup>5</sup> The following counties would have had to exceed their 50 cent levy limit to raise the same amount of money on their reduced property tax base in 2014: Banner, Garden, Rock, and Sheridan.