

Nebraska's high reliance on property taxes to fund K-12 education is a serious and long-standing issue that has frustrated our state's residents for decades. LB 829 – which proposes a refundable credit against state income taxes equal to fifty percent of property taxes paid to support schools – may sound like a good solution at first but in reality the measure would create more problems than it might solve.

### **A billion-dollar budget hole**

Upon full implementation, the tax credit proposed by LB 829 -- and a potential ballot initiative push that may occur should the bill not be approved by the Legislature – will reduce state revenue between \$800 million and \$1 billion. This revenue loss – which would equate to nearly a quarter of the state's general fund<sup>1</sup> -- would blow a huge hole in the state budget and leave lawmakers faced with making massive cuts to education, public safety and other vital services or drastically increasing sales taxes and fees or other sources of revenue.

### **Revenue challenges and trends make timing especially bad**

The timing of such a measure is questionable at best. State revenue growth has been weak in recent years, a trend that a U.S. Government Accountability Office report found could be the start of a 40-plus year run of shortfalls. The revenue shortages are likely to occur because of the increasing costs of health expenses and pensions that will mount as our population continues to age, the GAO report notes.<sup>2</sup>

Furthermore, Nebraska also faces tremendous fiscal uncertainty as a result of recently passed federal tax changes. It remains to be seen how the tax changes will affect state revenues. Additionally, the federal tax cuts will likely be offset by federal budget cuts, which will have undetermined ramifications for state revenues and funding for key state services as well. Considering this fiscal uncertainty, it is a dangerous time to consider any revenue-reducing measures much less a proposal as large as LB 829.

### **Better options to address property taxes**

Lawmakers this session do have better options for providing meaningful property tax relief. For example, LB 910<sup>3</sup> calls for the enactment of a property tax circuit breaker, which would provide targeted property tax relief to Nebraskans whose property taxes are high in relation to their incomes. The circuit breaker in LB 910 also would provide direct relief to renters, which would not occur under LB 829.

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<sup>1</sup> Nebraska Legislature, "LB 829 Fiscal Note," downloaded from [https://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB829\\_20180124-132731.pdf](https://nebraskalegislature.gov/FloorDocs/Current/PDF/FN/LB829_20180124-132731.pdf) on Jan. 24, 2018.

<sup>2</sup> U.S. Government Accountability Office, "State and Local Governments Fiscal Outlook, 2016 Update," downloaded from <http://www.gao.gov/assets/690/681506.pdf> on Dec. 21, 2016.

<sup>3</sup> Nebraska Legislature, "LB 910," downloaded from [https://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=34228](https://nebraskalegislature.gov/bills/view_bill.php?DocumentID=34228) on Jan. 25, 2018.

Another way to approach more systemic property tax relief would be to undertake a comprehensive review of Nebraska’s school funding formula as is proposed in LB 1001.<sup>4</sup> In the late 1980s and early 1990s, such a process led to an overhaul of Nebraska’s school funding formula that did have initial success in reducing our reliance on property taxes by increasing state aid to K-12 education. The school funding formula has since been tweaked several times, which has resulted in increased reliance upon property taxes to fund schools. Another comprehensive review could help state leaders once again make meaningful changes to school funding that could lead to lower property taxes and more stable funding for K-12 schools.

### **Conclusion**

LB 829 fails to get to the heart of Nebraska’s high reliance on property taxes, which is low state support for K-12 education and other local services. And given the state’s recent struggles with shortfalls, troubling revenue trends and the unclear impact of federal tax and budget cuts, now is simply not a reasonable time to discuss a massive revenue reduction that would force devastating cuts to key services or large increases in sales taxes, fees and other revenue sources. Nebraskans would be well served by rejecting the tax credits put forth in LB 829 and any potential ballot measure.

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<sup>4</sup> Nebraska Legislature, “LB 1001,” downloaded from [https://nebraskalegislature.gov/bills/view\\_bill.php?DocumentID=34358](https://nebraskalegislature.gov/bills/view_bill.php?DocumentID=34358) on Jan. 25, 2018.