



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.

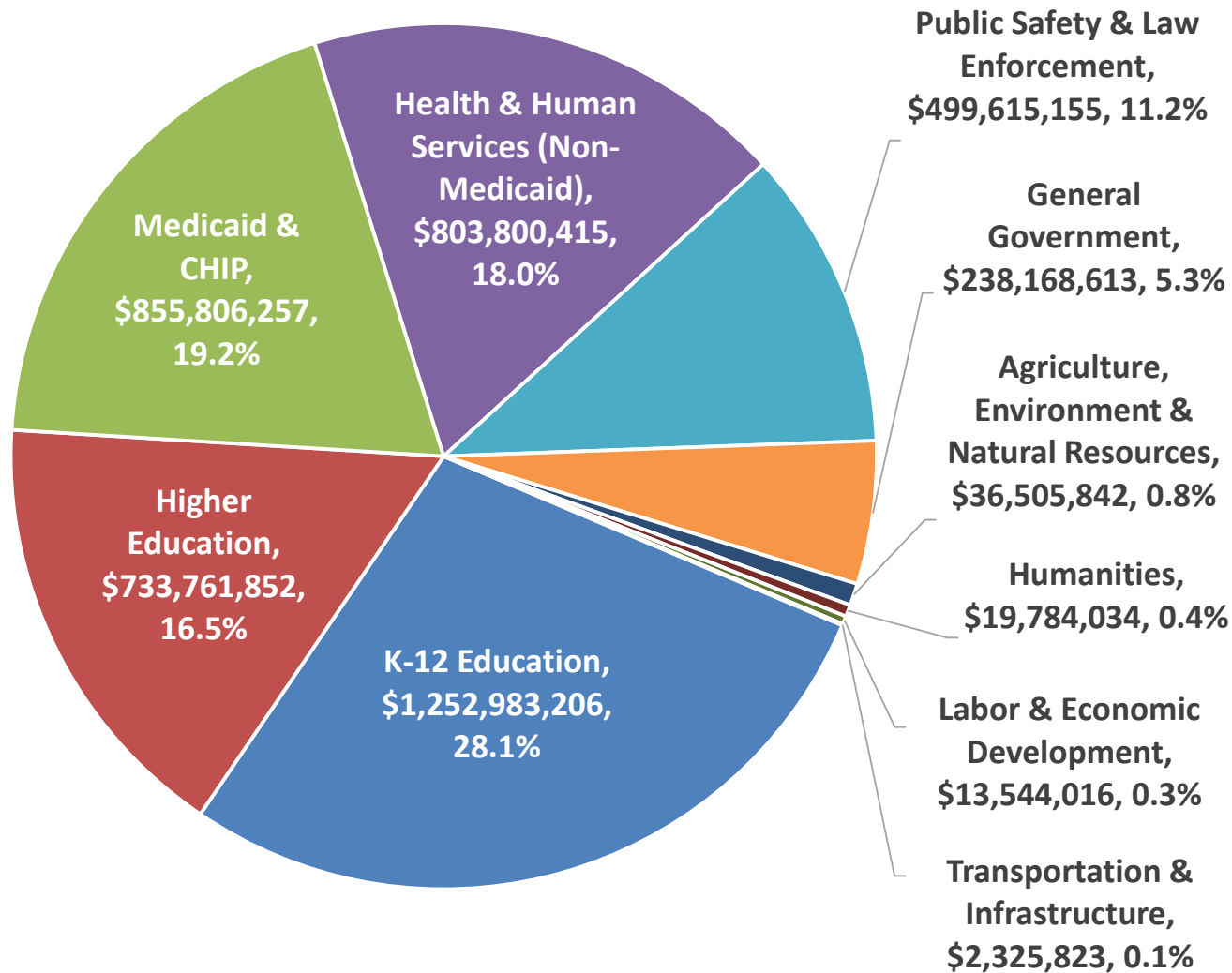
We are **non-partisan** and focus on **tax, budget, and education finance** policy in Nebraska.

Today's Presentation:

- Nebraska budget and tax basics
- Overview of major tax proposals in 2018 and what lies ahead

Education, Health Care Top Appropriations

General Fund Appropriations, FY 18-19

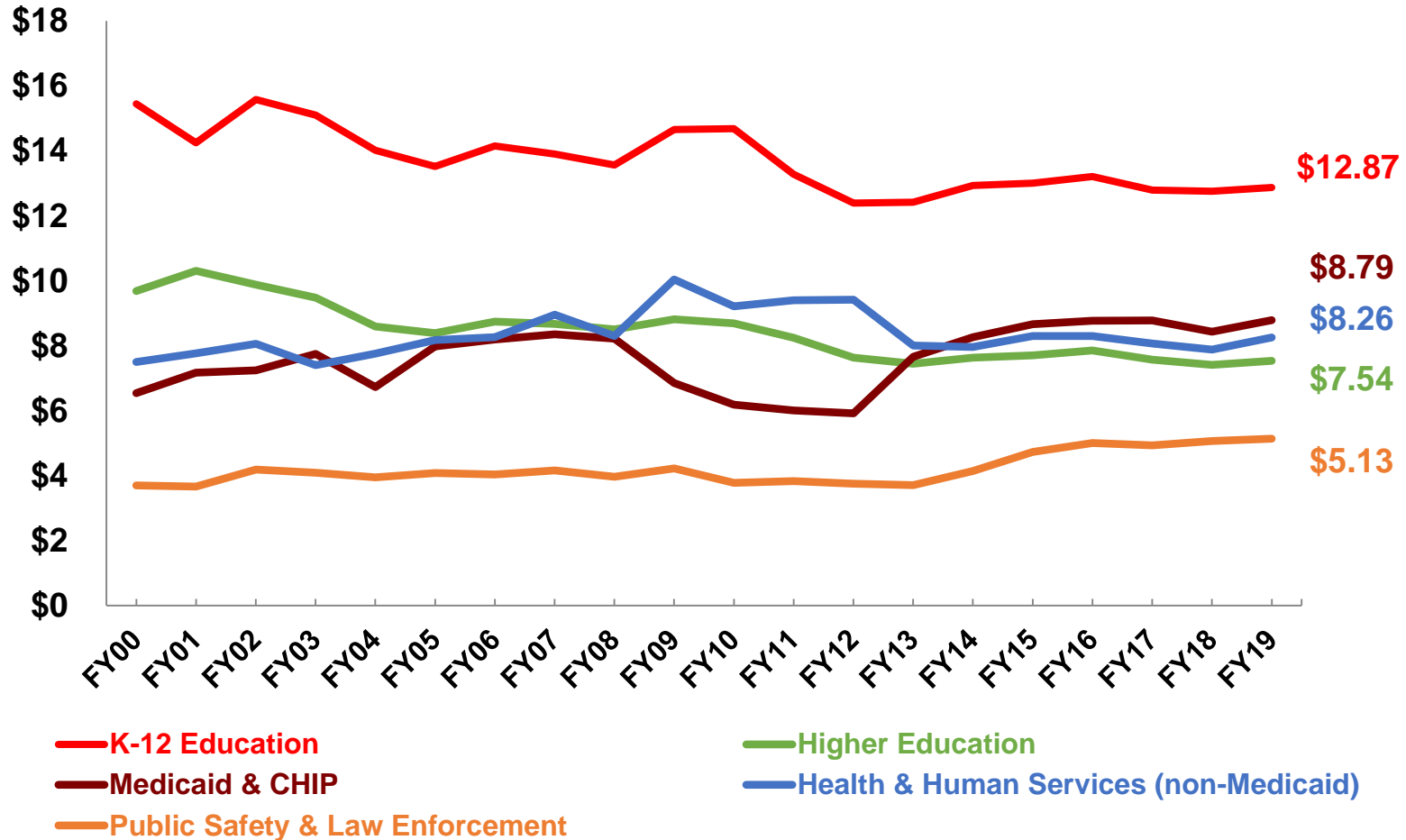


Total: \$4.456 billion

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

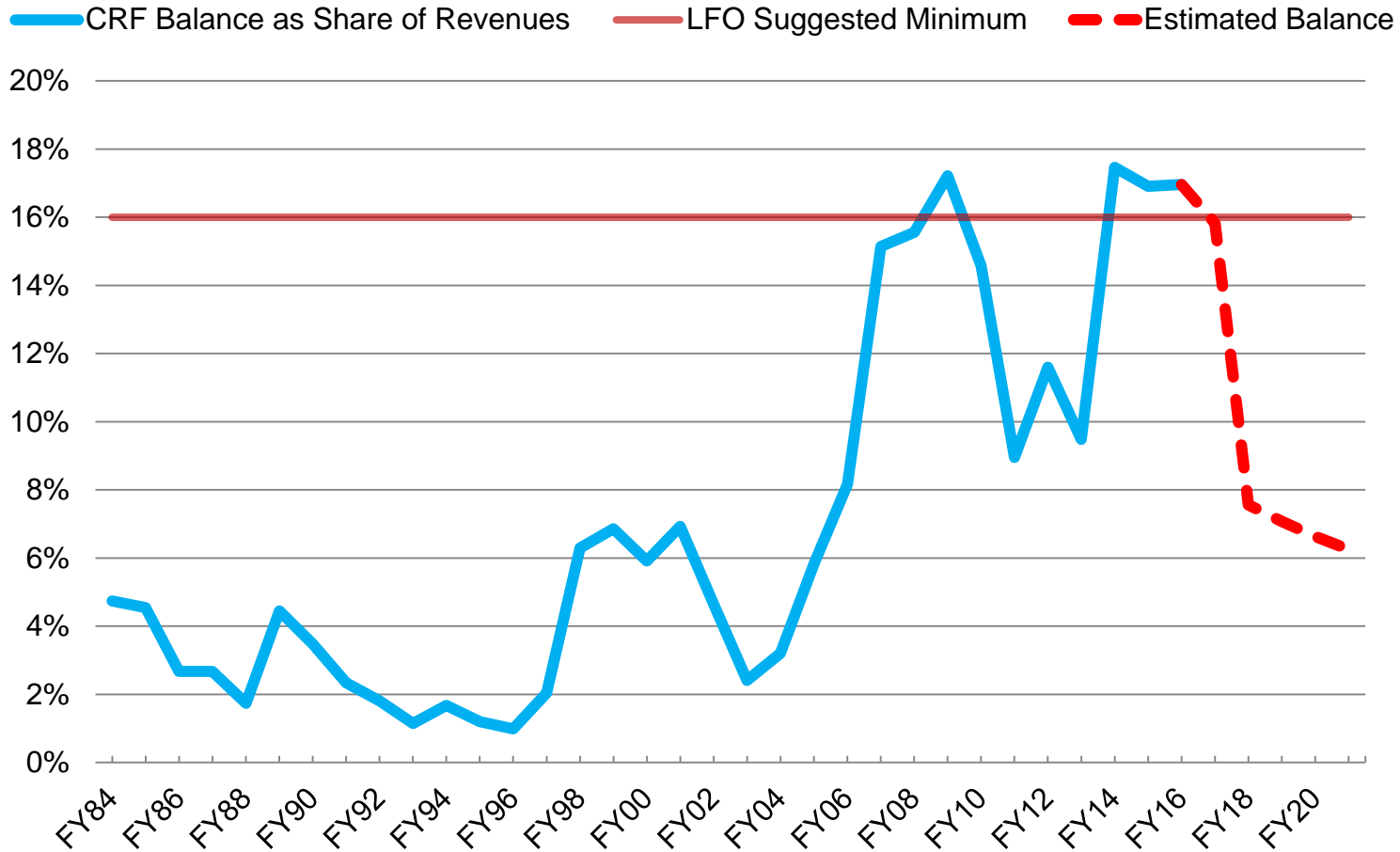
General Fund Appropriations per \$1,000 of NE Personal Income,
FY99 to FY19



Sources: NE Legislative Fiscal Office, US Bureau of Economic Analysis, Appropriation Committee Biennial Budget FY18-FY19, Mid-Biennium Budget Adjustments, March 2018

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 Tax Basics

NE not a high tax or spending state

2015 Rankings (U.S. Census Bureau)	Per Capita	Per \$1k of Personal Income	Per \$1k GDP
State & Local Taxes	21 st	28 th	43 rd
State & Local Spending (Direct Expenditures)	22 rd	31 st	43 rd
Individual Income Tax	17 th	24 th	30 th
Corporate Income Tax	15 th	20 th	23 rd
Sales Tax	21 st	26 th	30 th
Property Tax	12 th	10 th	12 th

Nebraska's Tax System is Regressive

State & Local Taxes in 2015

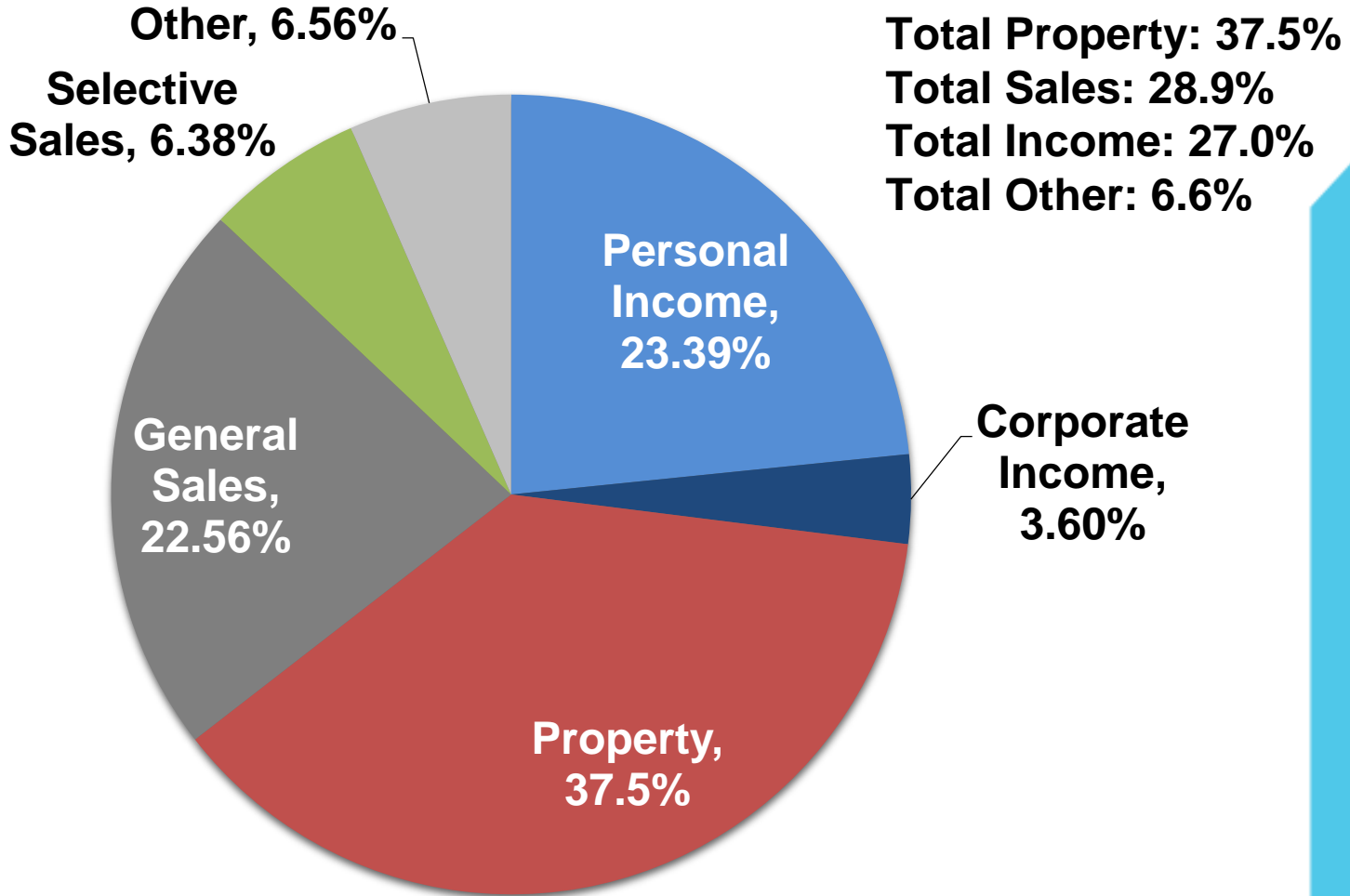
Shares of family income for non-elderly taxpayers



Source: Institute for Taxation and Economic Policy

Nebraska's Three-Legged Stool

State and Local Taxes by Type, 2015



Balancing the 3-Legged Stool

State and Local Taxes

	% Actual (2015)	% - Balanced	Difference
Property	37.5%	31.13%	-\$612M
Sales (Includes General + Selective)	28.9%	31.13%	+\$210M
Income (Includes Personal + Corporate)	27%	31.13%	+397M
Other	6.6%	6.56%	\$0

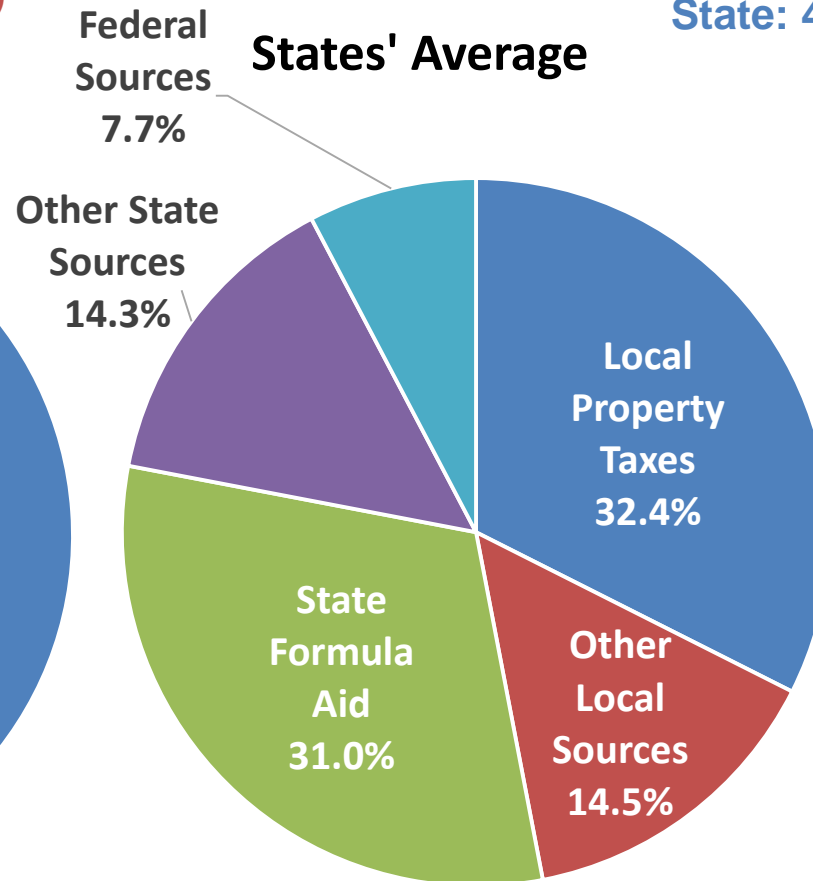
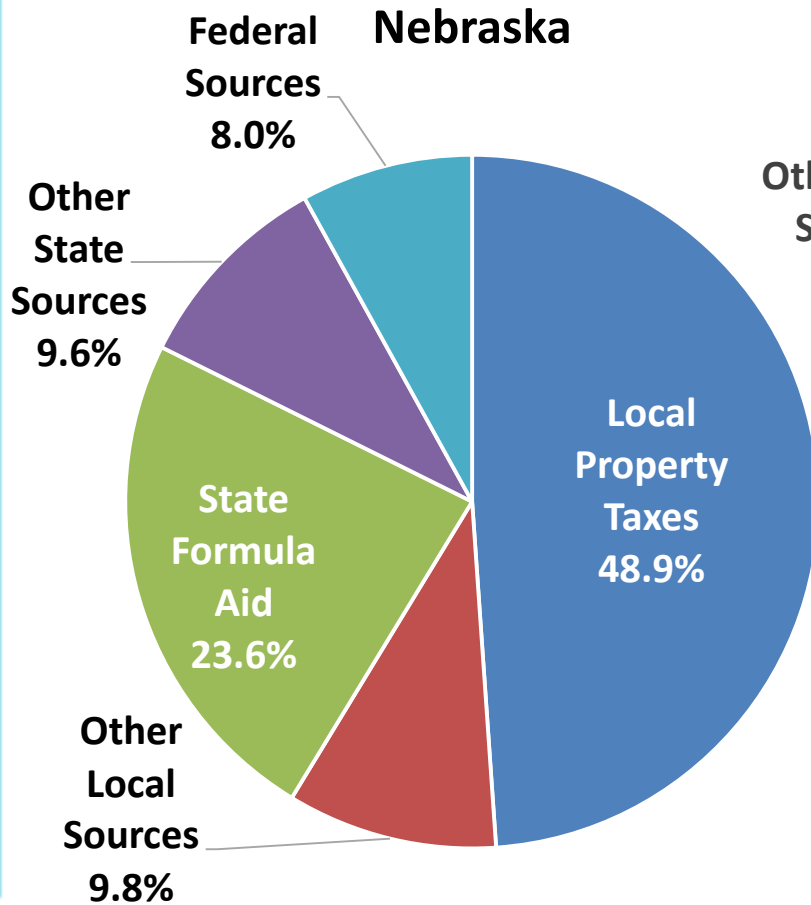
Source: US Census Bureau, 2015 Annual Survey of State and Local Government Finances

NE and States' Average of Total Education Funding

State total:
33.2% (48th)

Local total:
58.7% (2nd)

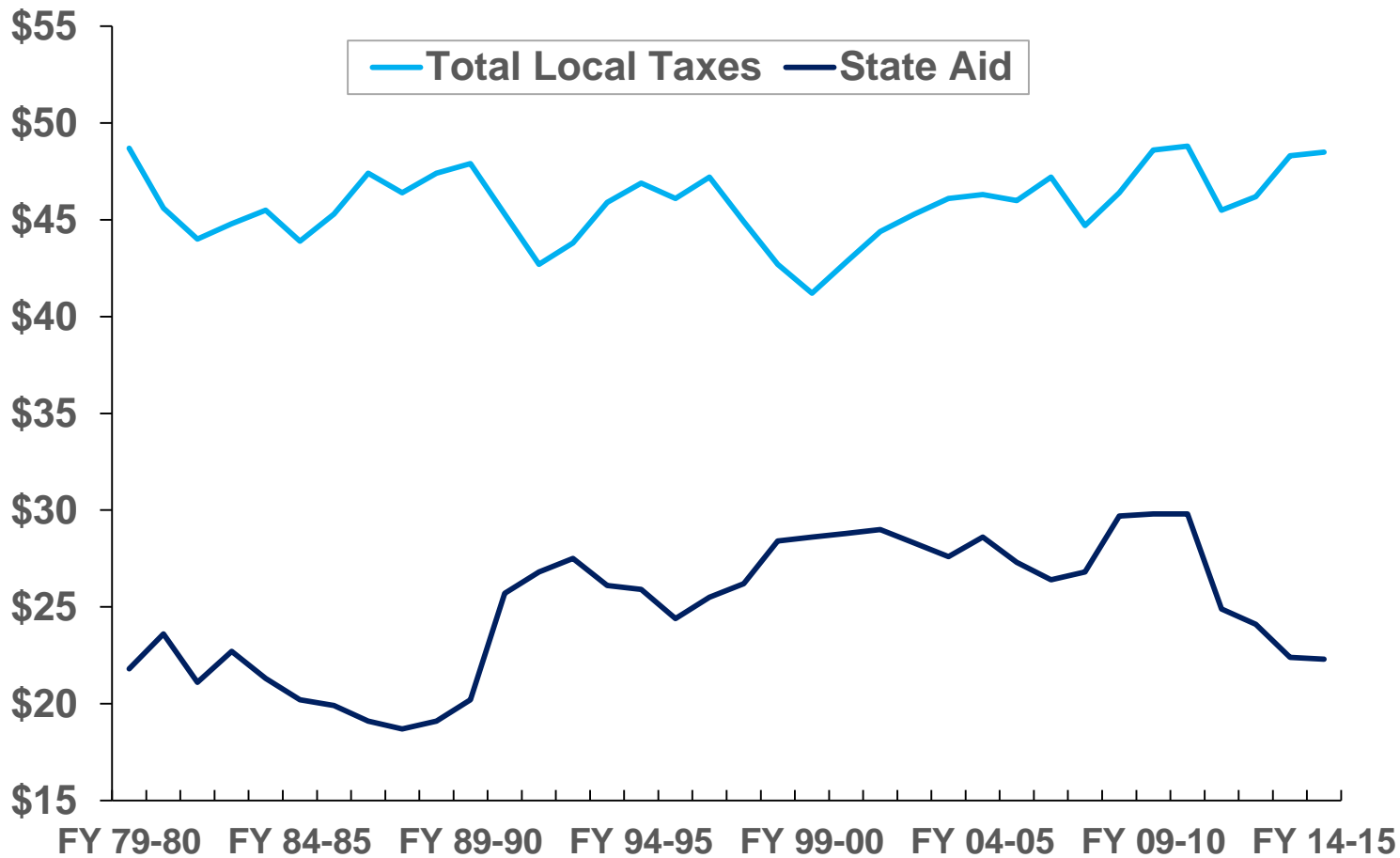
Local: 46.9%
State: 45.3%



Source: US Census Bureau, 2016 Annual Survey of School System Finances

State Aid and Local Taxes Have Mirrored Each Other

Aid and Taxes per \$1,000 of Nebraska Personal Income



Sources: US Census Bureau, 2015 *Survey of State & Local Governments*; US Bureau of Economic Analysis

Revenue Challenges:

- Ag economy
- Past tax cuts (\$810.7m in FY17)
- Tax incentives (spiked \$160m in 2016; cost was \$360m in 2016)
- Base issues (i.e. services, online sales)
- Federal tax changes
- Tax planning and behavior

PRIORITIZED 2018 TAX PROPOSALS

Most notable tax bill that advanced: LB 1090 (Smith)

- In response to federal tax cuts
- Preserves the state's personal exemption credit (\$134/person), raises the std. deduction, tied to faster rate of inflation (CPI, not chained CPI, as in the federal code)
- “Revenue neutral”

3 main approaches to tax reform

1. Mix of income and property taxes. Initial cuts paid for by cash reserve. Remaining cuts phased in over a period of years so relief not seen for quite some time. Not revenue neutral. No taxes raised.

2. Focused on immediate and significant property tax relief by raising sales and cigarette taxes and closing sales and income tax loopholes and exemptions. Revenue neutral. Tax shift.

3. Significant property tax relief immediately that wasn't paid for.

Likely Tax Proposals in 2019

- Income tax rate reductions or triggers
- Property tax reductions/reform (esp. Ag)
- 75/65, caps, income vs. market, PTC
- Tax incentive reform
- Eliminate sales tax exemptions
- Private scholarship tax credits/529 college saving plan modification
- Cigarette tax increase

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