Nebraska legislators and legislative committees have designated their priority bills for the session. Priority bills are placed ahead of non-priority bills on the legislative debate schedule, so receiving a priority designation increases a bill's likelihood of being debated by the full Legislature. The list of priority bills can help provide insight into what measures will be on the legislative agenda for the remainder of the session. Below we discuss some of the priority bills that relate to OpenSky's work and what position we have taken on them.

Priority bills that OpenSky supports

LB 638 – Change provisions relating to the transfer of excess General Fund net receipts to the Cash Reserve Fund. LB 638[1] changes how deposits are made into the cash reserve in order to keep the state's savings account near recommended levels. Presently, the cash reserve only grows when actual state revenues exceed forecasts, as state law calls for revenue that comes in above forecasts to go directly into the cash reserve. Under LB 638, the deposit would be the larger of two possible numbers: revenue that comes in above forecast or another deposit amount that is determined by a formula based on historic and current revenue growth. LB 638 also caps the cash reserve balance at 16 percent of General Fund expenditures, which is the balance recommended by the Legislative Fiscal Office, unless the Legislature votes to exceed the cap. The cash reserve balance is projected to be about $333.5 million at the end of this fiscal year,[2] which is about 7.5 percent of General Fund appropriations. If no deposits are made into the cash reserve, the balance is projected to be about $279 million at the end of the next biennium, which would be about 5.9 percent of projected General Fund appropriations.[3] It is important that the state have a strong cash reserve to buffer against large budget cuts and tax increases when the economy takes a downturn. This is particularly important now as revenues are struggling to keep up with state needs, and many economists are anticipating a recession in the next year or so. LB 638, as currently written, could require a larger deposit than the Legislature would prefer to make when we are coming out of a recession and need to bolster underfunded services or when we are needing to address a natural disaster like the recent massive flooding. To avoid this scenario, we recommend the measure be amended to include a safety valve for times when making a cash reserve deposit could do more harm than good.

[1] Nebraska Legislature, "LB 638," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37423 on March 28, 2019.
[2] Nebraska Legislature, "General Fund Financial Status," accessed at https://www.nebraskalegislature.gov/FloorDocs/Current/PDF/Budget/status.pdf, on April 1, 2019.
[3] Nebraska Legislature, "Appropriations Committee Preliminary Report FY 19/20, FY 20/21 Biennial Budget," accessed at https://www.nebraskalegislature.gov/pdf/reports/fiscal/2019prelim.pdf, on April 1, 2019. (On page 2, the report notes that the projected cash reserve balance in the next biennium would be $348 million but that assumed a $69.3 million deposit to the cash reserve that is no longer projected to occur based on February's revenue forecast.)

LB 713 – Provide for long-term accountability from the Legislative Fiscal Analyst. LB 713[4] requires the Legislative Fiscal Analyst to prepare a stress test, which would compare estimated future revenue and expenditures based on a variety of economic scenarios, such as moderate and severe recessions. LB 713 also requires comparisons of current estimated receipts to major trends for each tax type as well as comparisons of expected federal funds to long-term trends and overall receipts. LB 713's examination of tax trends also can help senators better grasp if there are changes that need to be made regarding the various tax streams. Along with the stress testing, LB 713 also charges the Legislative Fiscal Analyst with preparing a long-term budget. Policymakers often pass budgetary changes in one year, which do not take effect until later years. This can obscure the true impact of legislation and contribute to structural deficits. A long-term budgeting process, like that proposed in LB 713, can help clarify the future impact of proposed legislation.

Priority bills that OpenSky opposes

LB 670 – Adopt the Opportunity Scholarships Act and provide tax credits. LB 670[5] would create nonrefundable income tax credits for donations to private school scholarship programs. Under LB 670, an individual, couple, or business can receive a credit equal to 100 percent of their total contributions or 50 percent of their income tax liability, whichever amount is smaller. There are, however, no limits on donation amounts. This means that as long as there are enough credits available, a corporation with an income tax liability of $1 million could make a donation to a private scholarship granting organization of $500,000 and receive a $500,000 tax credit. Or, if a couple has income tax liability of at least $20,000 and they make a donation to a private scholarship granting organization of $10,000, they receive a state tax benefit of $10,000. The cost of the tax break is capped at $10 million in the first year, but if 90 percent of the credit is used, the cap will grow by 25 percent the following year. This growth happens every year 90 percent of the credit is claimed. Assuming Nebraska's credit grows by 25 percent each year, the credit would reduce state revenues by more than $93 million annually by 2030. OpenSky opposes LB 670 for multiple reasons including the fact that the bill would reduce state revenue at a time when revenues are lagging, support for public K-12 education is constrained and Nebraskans are clamoring for property tax reductions. The measure also would provide preferential tax treatment to donations to private school scholarship programs over other types of charitable gifts and could benefit students who could afford to go to private school without the scholarships. Furthermore, the bill would create another tax credit, and tax credits often passed and not reviewed again to see if they actually benefit the state.

[4] Nebraska Legislature, "LB 713," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37907 on March 28, 2019.
[5] Nebraska Legislature, "LB 670," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37317 on March 28, 2019.

LB 720 – Adopt the ImagiNE Nebraska Act and provide tax incentives. LB 720[6] creates a new state tax incentive program to replace the Nebraska Advantage Act, which will sunset in 2020. OpenSky opposes LB 720 because it would have large, variable and unpredictable costs with minimal fiscal protection measures in place. LB 720 does not necessarily incentivize high wage jobs. Rather the legislation gives a credit for an average wage, doesn't require benefits and allows for the pooling of part time employees to count as full-time equivalent jobs. LB 720 also would add on to the outstanding liability that Nebraska has for its other incentive programs, namely LB 775, which was passed in 1987 and is still reducing state revenue, and the Nebraska Advantage Act, which will continue to reduce state revenue for decades because of the length of the program agreements. The measure also fails to respond to the state's current economic conditions or needs, doesn't target incentives to underserved areas or conform to several other best practices regarding tax incentive programs.

Other priority bills OpenSky is monitoring

LB 153 – Change provisions relating to the taxation of military retirement benefits. LB 153[7] would allow individuals to exclude 50 percent of their military retirement benefit income from their state income taxes. The measure would reduce state revenues that fund vital services that many retirees need, such as health care services. Furthermore, academic literature finds no conclusive evidence that people move because of tax rates. According to U.S. Census Bureau data, Americans reported that housing, family and employment were more important factors in relocation decisions than taxes.[8] As such, this new tax break could reduce revenue while doing little to attract or retain military retirees. One way to improve the the measure would be to target the exemption to low-income military retirees in a similar manner to how Nebraska targets exemptions for Social Security income.

LB 183 – Change the assessed value of agricultural land and horticultural land for purposes of certain school district taxes. LB 183[9] would reduce the assessed value of agricultural land from 75 percent of market value to 50 percent of market value for the purposes of funding voter-approved school construction or facility maintenance. LB 183 would lower property taxes paid by farmers and ranchers for school bonds. The bill would, however, cause property taxes for some residential and business owners to

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[6] Nebraska Legislature, "LB 720," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37565 on March 28, 2019.
[7] Nebraska Legislature, "LB 153," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37489, on April 1, 2019.
[8] U.S. Census Bureau, "Table A-5. Reason for Move (Specific Categories): 1999-2018," https://www.census.gov/data/tables/time-series/demo/geographic-mobility/historic.html. The survey does not include a specific response for people who choose to move because of taxes, but those taxpayers could potentially choose "other housing reason" or simply "other reason" in their response. 6.7% of all responses chose "Other housing reasons," which is included in the housing category. 5% of all responses in the "other" category could reasonably be tax related after other miscellaneous reasons, such as natural disasters and leaving for college, are removed.
[9] Nebraska Legislature, "LB 183," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37344 on March 28, 2019.

increase. The shift from farmers and ranchers near urban areas to business and residential would result in a slight increase in taxes, because there are more business and residential property owners upon whom to shift taxes. However, such tax shifts will be higher in more rural areas where there are not as many businesses and residential property owners. LB 183 would also narrow the disparity of bond levies among agricultural landowners since agricultural land owners who are adjacent to urban areas tend to have higher levies than those in highly rural areas.

LB 294 – The mainline state budget bill and increase to the Property Tax Credit Program. LB 294[10] is the mainline state budget bill and provides for an additional $51 million to be placed into the state's Property Tax Credit Program. LB 303[11] is the legislative measure that would put the Property Tax Credit increase into statute. We appreciate the effort to reduce property taxes as Nebraska absolutely relies too heavily on them to fund K-12 education and other vital services. This modest increase in the Property Tax Credit Program, however, is unlikely to be an effective solution to this long-standing problem, which is rooted in Nebraska's low state support of K-12 education and other services. It's also important to note that in its preliminary budget recommendation,[12] the Appropriations Committee recommends funding the $51 million increase in the property tax credit but reducing public K-12 education funding by $38.5 million less than was proposed in LB 294. Funding K-12 at a lower level and increasing the Property Tax Credit Program would be working at cross purposes since providing less funding for K-12 education will likely cause school districts to increase their reliance on property taxes. This could wipe out much of the property tax relief that would be provided by the increase in the Property Tax Credit. The Revenue Committee is considering several measures this session that address our reliance on property taxes by raising other revenue sources in order to increase state aid to K-12 education. This approach, which falls in line with the 2013 Tax Modernization Committee's top recommendation for lowering property taxes,[13] is a more promising path towards providing Nebraskans the meaningful and sustainable property tax relief they need.

LB 483 – Change the valuation of agricultural land and horticultural land. LB 483[14] would change how Nebraska values agricultural land for taxation purposes from our current market value approach to a productivity value approach based on an eight-year average that considers what is produced on the land, how much revenue it generates for the owners, the price of commodities and other factors. Nebraska implemented a similar

[10] Nebraska Legislature, "LB 294," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37320 on March 29, 2019.
[11] Nebraska Legislature, "LB 303," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37488 on March 29, 2019.
[12] Nebraska Legislature, "Appropriations Committee Preliminary Report FY 19/20, FY 20/21 Biennial Budget," accessed at https://www.nebraskalegislature.gov/pdf/reports/fiscal/2019prelim.pdf, on March 29, 2019.
[13] Nebraska Legislature, "REPORT TO THE LEGISLATURE: LR155 – NEBRASKA'S TAX MODERNIZATION COMMITTEE (2013)" accessed at https://nebraskalegislature.gov/pdf/reports/committee/select_special/taxmod/lr155_taxmod2013.pdf on Feb. 6, 2019.
[14] Nebraska Legislature, "LB 483," accessed at https://www.nebraskalegislature.gov/bills/view_bill.php?DocumentID=37598 on March 28, 2019.

approach in the 1980s but halted it after it became apparent that property taxes would have been lower under a market value approach. Also, if LB 483 sharply reduces agricultural land valuation, many more districts could get brought into K-12 equalization aid. If Nebraska doesn't increase the amount of money available for equalization aid accordingly, many schools could see their state aid decline in the future.