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(EDITOR'S NOTE: This brief has been edited to make wording clarifications.)

LR 22CA and LB 408 -- two measures that propose a 3% cap on property tax revenue growth and that will be the focus of Revenue Committee hearings on Wednesday -- could have harmful impacts on local governments and undermine the principle of local control.

Millard Public Schools analysis highlights potential consequence of the cap

In Nebraska's school funding formula, a district's resources are determined by its property valuations. When property valuations go up, a school is determined under the formula to have increased resources, which decreases the amount of state aid they will receive. The cap proposed in LR 22CA and LB 408 would create a distortion in that mechanism, and would likely have the effect of limiting spending growth for many school districts well below 3%.

The Millard Public School District's average spending growth over the past ten years was 2.1%. From FY17 to FY18, the district had a 12% increase in property tax revenue, an 11.2% decrease in state revenue, for a total revenue decrease of 1.5%. If LR 22CA had been in place, Millard's property tax revenue increase would have been held to 3%, but the district's increase in valuation still would have triggered an 11.2% decrease in state revenue, resulting in a 5% decrease in total revenue.

Over time, these effects would compound and force Millard and schools in similar situations to go to a vote of the people to override the property tax cap, which would be time-consuming and expensive, or make damaging cuts to the programs and services districts offer students.

Revenue mix would determine the cap's impact on other localities

The impact of the cap on other political subdivisions will differ depending on their mix of revenue streams. Community colleges, for example, rely on property taxes, state aid and tuition. So if property taxes are capped at 3% and state aid is flat, they would be forced to raise tuition to even get to 2% or 3% spending growth. Given the important role community colleges play in addressing workforce training and development, it could be counterproductive to create revenue and spending issues for these vital entities.

Some cities might be able to make up for the loss of property tax revenues by increasing local option sales taxes, occupation taxes or fines and fees. While these options may help cities avoid service cuts, they are all regressive measures that would shift the tax load increasingly onto low- and middle-income Nebraskans. However, cities that are already fully utilizing local option sales taxes could find themselves in a situation where their revenue is going to be squeezed, possibly well below 3% growth.

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Measures could prevent locally elected officials from addressing community needs

The proposed cap could hinder locally-elected officials -- who have a better understanding of their constituent needs and desires than do state legislators who might live hundreds of miles from affected communities -- from making needed policy choices in response to natural disasters like floods or tornadoes. The cap also could prevent smaller local entities from being able to purchase needed construction equipment or make other investments their constituents find necessary.

Cap is a flawed approach to a complex issue

The issue of property tax revenue growth is just one piece of a much larger puzzle. Failing to consider the larger tax picture when trying to address Nebraska's long-running issues with overreliance on property taxes is likely to create more problems than it solves.