EXECUTIVE SUMMARY

In 1995, the Nebraska Legislature faced a great challenge. Three petition drives were circulating to substantially reduce, or even eliminate the use of the property tax in the state. One of these petitions gathered enough signatures to be placed on the ballot for the 1996 general election.

In response, the Legislature began a multi-faceted approach to the problem by enacting 25 bills and placing two constitutional amendments on the ballot from 1996 through 2001. These enactments changed hundreds of sections of law. Among these changes were bills to:

1. Reduce, re-establish, and coordinate levy limits to establish and enforce an overall maximum rate of property taxation,

2. Tighten budget limitations already in existence,

3. Develop new state aid formulas or revise existing formulas for schools, cities, counties, community colleges, and fire districts to accommodate the limited availability of the property tax,

4. Increase the state share of the support for local services,

5. Unify, reduce and redirect motor vehicle taxation, and

6. Create and improve opportunities for local governments to work cooperatively and improve the efficiency of local government operations.

This report examines the success of this effort. It looks at both the amount of property taxes used by local governments and changes in local government structure and operations to be more efficient. Results are measured against the goals set out by the Revenue Committee in 1995:

Goal 1 - Restructuring local and state government services in Nebraska,

Goal 2 - Reducing the use of the property tax to finance public services, and

Goal 3 - Restructuring state aid to local government to enable reaching goals 1 and 2.

The results are positive with some reservations. Generally, the Legislature was quite successful in reducing the use of the property tax and in restructuring state aid. There has been much less progress in restructuring government itself.

The growth rate for the property tax was cut in half by the property tax relief measures passed by the Legislature beginning in 1996. When comparing the period 1990-1995 to the period 1995-2000, the growth rate in property taxes was reduced from nearly six percent to less than three percent. This was due primarily to increased state aid to local governments and tighter budget growth limitations. Revenue growth in the income tax and sales tax made possible greater state aid for local governments without increasing either state tax rate. In fact, both income tax and state sales tax rates were reduced during this period of exceptional growth in the economy. The overall level of taxation as a percent of the Nebraska economy as measured by personal income declined during this period.

Levy limits, while effective in some smaller communities, were less significant in reducing the level of property taxation. The rise in taxable valuation over the period made levy limits less effective than they might have been, had valuation growth not increased at twice the rate of inflation. This situation may change in the future if valuation growth slows down and improvements in assessment quality become fully implemented. Governmental restructuring, while occurring in a few places, was minor.

The most dramatic decreases in the use of the property tax were found in schools, community colleges, and Educational Service Units. Less significant were reductions in use by cities and counties. Natural Resources Districts increased their use of the property tax despite increases in state aid that replaced motor vehicle taxes. Fire districts increased their use of the property tax as well, despite state aid for fire districts agreeing to participate in joint financing of services.

Property tax rates decreased significantly for almost all Nebraskans. Increased state aid combined with budget limits to produce lower levies. Increased taxable value, in large part from economic growth from new construction, helped reduce the average statewide tax rate to less than $2 per $100 of taxable value. The average property tax rate declined 22 percent during this period and is now at the lowest level since 1967, the year the statistic began being kept.

A fifty-community micro-analysis shows that the residential property tax burden on household income in most Nebraska communities decreased over the five-year period of 1995-2000. The leading factor in that reduction was an increase in state aid to local governments that use the property tax. Budget lids and levy limits also contributed significantly to this effort, forcing local governments to replace property taxes with increased state aid, rather than spend all additional aid.

The tax burden study conducted annually by the Department of Finance of the District of Columbia confirms a dramatic reduction in the household tax burden for households located in the Omaha Public Schools District. This improved tax burden ranking and situation was driven by property tax reductions, changes in motor vehicle taxation, and reductions in income tax rates. According to this study, the property tax burden on a family of four with a $50,000 annual income decreased by $465 from 1996 through 1999.

This report also showed that Nebraska has a progressive state and local tax system, one of the most progressive of the 50 states in 1999.

In examining the impact of the legislation on economic sectors, there was almost no increase in the dollar amount of taxes levied on agricultural and horticultural land, improvements, personal property and residences from 1995 through 2000. Those areas of the state where taxes on agricultural property increased tended to be places where the rates were low to begin with. Significant and timely reductions in 1998 helped offset a large decline in farm income coming in that year.

Increases in property taxes on the residential and commercial and industrial sectors was greater than the rate of inflation, but this increase is attributable at least in part to growth in the amount of property subject to tax. Increased construction activity means that this increased burden is shared across more and more properties. Both the fifty-community micro-analysis and the Finance Department of the District of Columbia Tax Burden Study confirm that the burden on the average residential taxpayer increased less than the rate of inflation. Also, because increases in taxes attributable to new bond issues are most common in growing, urban areas, voter approved increases in taxation also contributed significantly to the rate of increase that was in excess of inflation.

The pace of local government restructuring did not increase significantly over the period, despite legislative efforts to incent or encourage that result. School district consolidation or merger did occur during this period, but at no faster pace than in the five years prior to the beginning of the property tax relief effort.

By some measures, the quality of public services may have improved over the five-year period of local budget and tax restraint. Growth in teacher hiring, decreased pupil teacher ratios, new school buildings and city infrastructure projects, and increased availability of new computer technology to students and citizens suggest that restraints still allowed for resource growth that may improve public services.

Bonded debt funded capital spending, and other capital and equipment projects increased dramatically over the period, as voters approved many new governmental infrastructure projects. One-fourth of all property tax increases during the period were due to increased taxation for school bonds approved since 1996 and municipal bonds approved since 1998. The reduced pressure from property taxes for general operations may have encouraged taxpayers and governments to increase property taxes for governmental infrastructure, including new schools, convention centers, libraries and economic development efforts. These voter decisions offset some of the property tax reduction that would have occurred under the property tax relief measures adopted by the Legislature. Since exceptions for bonded debt, capital improvements, and purchases of equipment were designed into the levy and spending limits, this result should not come as a surprise to legislators.

Most local governments managed to live within the budget and levy limits. Very few governmental bodies chose to exceed either type of limit by a public vote. Those that did were usually increasing resource availability significantly over prior levels, rather than taxing harder to sustain past service levels.

There were extensive changes made in state aid to local governments. For the most part, increased aid equalized resources available to local governments for their operations. Schools, municipalities, counties, and community colleges all saw increases in state aid designed primarily to reduce levies in those places in Nebraska where valuation is lowest.

I. INTRODUCTION

In response to three different property tax relief initiatives that were being discussed, the Legislature began a multi-year effort in 1995 to reduce property taxes in Nebraska. This effort sought to attack the problem comprehensively. Many bills have been passed and many changes have been made in this effort.

This report will review and evaluate efforts made since 1995. It will begin with background and then summarize legislation that has passed to further this goal. Finally, the results of these efforts will be measured to determine how successful this Legislative effort has been.

II. BACKGROUND

A. ***Prior property tax relief measures.*** The following is a chronological listing of many property tax relief measures the Legislature passed beginning after the approval of the Duis amendment in 1966 and the subsequent adoption of sales and income taxes in 1967 though 1990.

1966 - voters approved a constitutional amendment terminating the state property tax by a 51 to 49 percent vote.

1967 c. 487 – sales and income tax adopted.
c. 494 – household goods exempted from property tax.
c. 498 – intangible property exempted from property tax.
c. 620 – state takeover of UNO, which was previously a property tax supported city university.

1969 c. 632 – created homestead exemption program.
c. 629 – authorized city sales tax.

1972 - LB 1032 – state assumption of magistrates, justices of the peace and county courts.

LB 1241 – exempted one-eighth of the value of business machinery, livestock, and farm and business inventories and increased the exemption by one-eighth each year for five years.

1977 - LB 518 – exempted the remaining three-eighths of the value of business machinery, livestock, and farm and business inventories over the following three years. After a round of litigation, the impact of the exemption was reimbursed with $70 million of a) per student aid to schools, b) per capita aid to municipalities, c) aid to counties based on taxes levied, and d) aid to N.R.D.s, also based on taxes levied.

1979 - LB 138 - began to phase out the county share of the cost of Medicaid.

1984 - LB 13 - state assumption of municipal courts.

1989 - LB 84 – granted one-year, 8½ percent valuation reduction or $5,400 homestead exemption, whichever was greater.

1990 - LB 1059 – Comprehensive school finance reform that replaced $100 million of per student distribution as personal property tax replacement funds and $33 million of equalized aid. A stated goal of the legislation was to provide 45 percent of the cost of education from state sources. The bill had four major components:

1) One cent sales tax increase and 17½ percent income tax rate increase.

2) Return of 20 percent of income tax receipts to the school district of residence of the taxpayer.

3) $200 million of equalized aid to school districts based on tiers for different sized school districts, and

4) Expenditure limits for schools of 4 to 6½ percent and property tax asking limits on other governments of 4 percent.

LB 1059 was referred to the voters in November 1990 and sustained.

B. ***Assessment reform.*** In the early part of the 1990s, the Legislature also embarked on a series of bills to reform the property assessment system. There was concern that the determination of value by county assessors varied in quality and uniformity. This was due, in part, to frustration with how the State Board of Equalization was carrying out its duties and the growing role that valuation equalizing state aid to local governments was playing in the financing of local services. Increasing the uniformity of assessed value was seen as a critical precondition to increasing state aid as a share of the local finance system.

The following chronology summarizes these changes:

1994 Legislation:

LB 902 – created Agricultural and Horticultural Land Valuation Boards to provide a more locally responsive body to equalize agricultural assessments prior to action by the State Board of Equalization.

LB 1290 - provided for adjusting the valuation of school district taxable property to the uniform and equalized statutory level for purposes of state aid distribution.

1995 Legislation:

LB 137 – provided a statutory equalization range of 74 percent to 80 percent for agricultural and horticultural land and 92 percent to 100 percent for all other property.

LB 452 – revised the property tax calendar so that action by the State Board of Equalization to equalize values occurs at the beginning of the process, before individual protests.

LB 490 – created the Tax Equalization and Review Commission to replace the district court as the body hearing individual protests of value and exemptions, and provided for the separate appointment of the Property Tax Administrator to a defined term.

LR 3CA – placed on the 1996 primary ballot, a proposal to amend the Constitution to replace the State Board of Equalization with the Tax Equalization and Review Commission as the body to perform equalization duties. The proposal was approved by the voters in November 1996 by a 54 percent to 46 percent margin.

1997 Legislation:

LB 397 – implemented LR 3CA and provided for equalization by the TERC.

1999 Legislation:

LB 36 – made the Property Tax Division of the Department of Revenue a separate department named the Department of Property Assessment and Taxation.

C. ***Initiatives in circulation.*** Despite the efforts outlined above to reduce Nebraska's reliance on the property tax and assure fair and equal assessments, during 1995 and 1996 three ballot initiatives to reduce or eliminate use of the property tax were being discussed and circulated. All three would have made much more radical changes to the state and local finance system than anything attempted before in Nebraska. They ranged in impact from the elimination of the tax to severe restrictions on its use.

The PROPERTY TAX RELIEF AMENDMENT was circulated throughout the state in 1995 and 1996, but ultimately failed to obtain the required number of signatures to reach the ballot. It sought to achieve three different goals and was usually referred to as the "trio amendment". First, the amendment would have placed a number of rights guaranteed by the United States Constitution into the Nebraska Constitution, including equal protection. Second, the amendment would have prohibited the levying of a property tax in Nebraska. And third, it would have prohibited any tax increase or tax base expansion for state government or any local government in Nebraska without a vote of the people to approve the increase. Exceptions were for debt and adding employees to a retirement plan.

Another petition was circulated by a group called NEBRASKANS FOR TAX RELIEF. It also failed to reach the ballot. It would have prohibited any increase in revenue for any reason for fiscal years 1997-98, 1998-99, and 1999-2000. After that time, only those tax increases equal to inflation plus population growth or those approved by the voters were to be allowed. Forecasted growth in tax revenues in excess of the limit was to be avoided by lowering the income tax rate for the state and property tax rate for local governments. The initiative also would have prohibited state-imposed mandates on local governments and allowed local government mergers.

The CITIZENS' AMENDMENT TO REDUCE PROPERTY TAXES was the only one that garnered enough signatures to be placed on the 1996 general election ballot. However, it was divided for purposes of the election and appeared on the ballot as two proposals, Initiatives 411 and 412.

Initiative 411 would have provided that education was the paramount duty of the state and required the state to assure support for education for 1998-99 at least equal to the level of support the prior year.

Initiative 412 would have 1) limited the total combined property tax levy for all local governments to no more than $1.80 per $100 of taxable value in areas within incorporated cities and villages and $1.30 outside such areas; 2) limited the levy for the support of schools to 90 cents; 3) excepted levies for bonded indebtedness and allowed the limits to be exceeded only by a vote of the people; 4) limited assessed values to no more than 80 percent of actual value for agricultural and horticultural land and 100 percent of actual value for all other property; and 5) required the Legislature to set efficiency standards for the delivery of all local services.

Because the Citizens' Amendment was on the ballot and was well financed, the Legislature supported the late introduction of LR 93CA in 1995. LR 93CA would have limited school levies to $1 per $100 of taxable property, county levies to 30 cents, city levies to 60 cents, unless the city was within a fire district in which case the levy was to be 50 cents, 10 cents for fire districts, 7 cents for community colleges and 3 cents for Natural Resources Districts. The levy authority of a host of other local governments, including Educational Service Units, airport authorities, historical societies, hospital districts, and public building commissions were to be eliminated under LR 93 CA.

The Committee eventually killed the constitutional amendment, but its introduction and discussion set the stage for significant statutory changes that were enacted beginning in 1996. The Citizens' Amendment lost by a three-to-one margin and legislatively enacted changes affected the face of the state and local fiscal relationship significantly.

III. THE PROPERTY TAX RELIEF PACKAGES OF BILLS

Beginning in 1996, the Revenue Committee and the Legislature embarked on a multi-year and multi-faceted approach to reduce property taxes. There were three stated goals:

Goal 1 - Restructuring local and state government services in Nebraska,

Goal 2 - Reducing the use of the property tax to finance public services, and

Goal 3- Restructuring state aid to local government to enable reaching goals 1 and 2.

There were also at least two less public goals. First, convincing a skeptical public that the Legislature would address property tax concerns, making passage of Initiatives 411 and 412 unnecessary. Second, avoiding the experience of 1989 when $100 million of state paid property tax credits without conditions resulted in significant local tax increases.

A. ***Legislation enacted in 1996*** -

LB 1085

LB 1085 was the first step in the "Package" and contained provisions intended to provide immediate impact. The bill:

1) established procedures allowing any county to combine offices or allowing two or more counties to consolidate, combine one or more county offices, or provide for joint performance of a function or service,

2) allowed counties to turn over the responsibility for assessment of property to the Property Tax Administrator,

3) gave county boards direct budget oversight over veterans service committees, county hospitals, and county extension services, and

4) required political subdivisions to pass a resolution after issuing a notice to levy more from the property tax than the previous year. This was intended to prevent situations in which local governments would use valuation growth to increase property taxes while lowering the rate and claiming credit for a tax cut. Some called this proposal "Truth in Taxation."

LR 292CA (As proposed to the voters for approval)

This resolution placed on the November 1996 ballot a proposal for an amendment to the Nebraska Constitution to:

1) amend Article XV, Section 18, to allow the Legislature to provide for the merger or consolidation of local governments,

2) amend several sections to strike all references to townships in the Constitution,

3) amend Article VIII, Section 1 (the uniformity clause) to allow the Legislature to provide for different tax rates within and outside municipalities and on different, reasonable classes of property if the differences are required pursuant to an agreement for the joint exercise of powers or duties or a merger of local governments. This section would have also been amended to remove the requirement that motor vehicle taxes be distributed to local governments in proportion to property taxes levied,

4) amend Article VIII, Section 2 (property tax exemptions) to limit the absolute exemption for government property to require it to be exempt “to the extent the property is used for public purposes” as provided by the Constitution or the Legislature.

The voters rejected LR 292CA in 1996 by a vote of 47 percent to 53 percent.

<u>LB 1114</u>

LB 1114 provided levy caps for fiscal years beginning on or after July 1, 1998 as follows:

1) School districts and multi-district systems - $1.10 per $100 of taxable value subject to the levy through 2001. Beginning with fiscal year 2001, the limit dropped to $1. Excluded from this limitation for schools only are severance payments made to teachers and appropriations from the special building fund for projects commenced prior to April 1, 1996. Federal aid school districts may exceed the caps but only if necessary to qualify for federal impact aid.

2) Community colleges - eight cents per $100 of value through 2001. Beginning with fiscal year 2001-02, the limit was to drop to four cents.

3) Natural Resources Districts - 4½ cents.

4) Educational Service Units - 1½ cents.

5) Municipalities, 45 cents - except that they may levy up to an additional five cents to provide financing for the municipality’s share of the revenue required for a jointly financed service.

6) Sanitary and Improvement Districts that have been in existence for more than five years - 40 cents. If the SID has been in existence for five years or less, there is no limit.

7) Counties are allowed to levy or authorize up to 50 cents, except that five cents may be levied only to provide the county’s share of the revenue required for a jointly financed service. From the county’s share, it may allocate up to 15 cents to miscellaneous districts, which no longer have authority to levy taxes independently of the county board.

Property tax levies for judgments not covered by insurance, for lease purchase contracts executed prior to July 1, 1998, or for bonded indebtedness are excluded from the limitation. These limitations are to include all other levies authorized elsewhere in statutes.

Either the governing board through resolution, or the citizens through petition, may place before voters a proposal to exceed the limits for up to five years. Villages or miscellaneous districts may approve an override for one year at a town hall meeting where a quorum of at least ten percent of the registered voters are present.

LB 299

LB 299 provided a limitation on local governments, except for schools, based on restricted funds, defined as property taxes, local sales taxes, state aid, and other user fees which generate surpluses which are then used for general purposes. Schools were limited in a comparable manner through amendments to the then existing LB 1059 (1990) expenditure limitation modified to be as similar as possible to the restricted funds limitation.

For budgets adopted beginning July 1, 1996 through July 1, 1997, governments were prohibited from adopting budgets containing expenditures of restricted funds which were greater than the prior year budgeted restricted funds plus population growth plus two percent. For 1997-98, the limit was the prior year budget of restricted funds plus population growth. A governmental unit could exceed this limitation by up to one percent upon an affirmative vote of at least 75 percent of the governing body. If responsibility for a government service were transferred from one governmental unit to another or to the state, the amount of restricted funds budgeted for the service was subtracted from the base of the old provider and could be added to the base of the new provider. If a governmental unit had annexed area, the calculations were adjusted.

Exceptions to these limits were: 1) capital improvements regardless of how financed, 2) bonded indebtedness, 3) expenditures of restricted funds in support of a jointly financed service for the first two years of operation, 4) repairs to infrastructure damaged by a natural disaster, and 5) restricted funds budgeted to pay for judgments, except CIR judgments to the extent not covered by insurance.

Budget limits may be exceeded with approval of the voters on a ballot issue presented by the governing body or by petition of the citizens.

LB 1177

LB 1177 created a Municipal Equalization Fund to provide assistance to municipalities with low per capita valuation, and allowed a county sales tax and an extra five cents of levy authority for cities and counties for purposes of funding joint city-county public safety services.

The bill provided that any qualifying municipality receives aid equal to (the average per capita property tax levy times the population of the municipality) minus (the average property tax levy times the valuation of the municipality). If the result is negative, the municipality receives no aid. Essentially, this formula allows every city to raise the average amount of per capita revenue by levying the average property tax rate, with the Fund supplying any shortfall.

The bill also allowed any county to impose a local sales tax of up to 1 ½ percent throughout the county, except any county tax will not be applicable in any city that has a sales tax. The proceeds of the tax must be used to finance the county share of a public safety commission, and any other joint services provided under an inter-local agreement. To impose a county sales tax, a majority of the voters must approve. A public safety commission is a joint city-county entity that is to provide public safety services jointly for the entire area.

LB 693

LB 693 created the Nebraska Commission on Local Government Innovation and Restructuring. Between 1996 and 2000, the commission was to:

1) fund outstanding local government projects in innovation, restructuring and cooperative services. Funds were available for planning and implementation of such projects on a matching basis only,

2) conduct research and publish evaluations of such projects,

3) provide information and educational opportunities regarding such projects,

4) identify mandates which deter or prevent such projects and to recommend changes to such mandates, and

5) identify issues, guidelines, and incentives for collaborative use of facilities.

LB 1050

LB 1050 was an Education Committee bill that revised the school aid equalization formula and created school consolidation incentive funding. The bill made four changes that were significant to the property tax relief effort:

1) It changed the distribution of the insurance premium tax to schools from a per student distribution to deposit into the equalization fund for distribution.

2) It capped the income tax portion of the school aid formula to $82 million, a reduction from the prior year's distribution to all school districts of more than $30 million. This change also focused more state resources into equalization.

3) It limited option student funding to the net option students.

4) It created an incentive aid program for schools that consolidate. The program provided additional aid to a district that moved from a higher cost tier to a lower cost tier through consolidation. The amount of the aid was calculated per student and increased with the size of the resulting school. Consolidation incentive aid was provided for the first three years of a consolidation and the total amount distributed was limited to no more than one percent of the statewide equalization aid pool in any one year. New procedures were provided for employees affected by a reorganization.

B. ***Legislation enacted in 1997 -***

LB 180

LB 180 created the Property Tax Relief Fund to which $20 million was to be transferred from the General Fund for the 1998, 1999, and 2000 fiscal years. The money was to be used for property tax relief including takeovers of local programs or increased or new state aid programs.

<u>LB 269</u>

LB 269 clarified aspects of LBs 299, 1114, 1085 and 1177, and made a few substantive changes consistent with those acts. These substantive changes are summarized below:

1) The bill provided for city allocation of levy authority for city airport authorities, Community Redevelopment Authorities, and other entities created by city councils.

2) It delayed the final levy setting date from October 15th to November 1st and placed personal property on the same delinquency schedule as real property for purposes of taxation.

3) It provided enforcement for the levy limits by requiring counties to certify levies only if they are in compliance with the limits. Any levies not in compliance are *unauthorized levies*. Individual taxpayers may enforce the limits by appealing the levy to the TERC.

4) The bill amended the municipal equalization formula by providing for calculation based on three different size groupings of cities and villages.

5) The bill changed the levy limits for community colleges from eight cents through 2000-01 and four cents thereafter, to eight cents through 1999-2000 and seven cents thereafter, and

6) It also eliminated the old equalization formula for community colleges and replaced it with two new formulas. First, if the community college area is levying at least a minimum levy equal to about 10 percent below the maximum, and the categorical aid provided by the state is less than 40 percent of the operating costs, the state is to increase such funding to 40 percent. Second, the state is to also make up any difference between what the community college area can generate at the maximum levy under LB 1114, as amended, and 40 percent of the operating costs. The operating costs are the 1997-98 base of spending plus student growth plus two percent per year.

<u>LB 271</u>

LB 271 eliminated the property tax on motor vehicles and replaced it with a uniform tax and fee system. The motor vehicle fee is a nominal amount, no more than $30 annually that decreases to about $5 as the vehicle ages, but never disappears entirely. Proceeds from the fee are to be distributed equally to cities and counties based on the Highway Allocation Fund formula.

The motor vehicle tax is determined using a multi-stage reduction table that decreases over time reaching zero at fifteen years. Different base amounts of tax are set out for motorcycles, trucks, mobile homes, trailers and all other motor vehicles. With regard to passenger cars, the beginning or base tax goes up based on the manufacturers' suggested retail price when new of the vehicle. The schedule is progressive.

The Legislature created and adopted the schedule seeking an estimated reduction in taxes, based on the 1996 taxes levied of about 10 percent, including the fee. However, the actual proceeds for the tax and fee in 1998 turned out to be about 20 percent below the 1997 collection of property taxes levied on motor vehicles.

LB 343

LB 343 allowed each county clerk to suggest a uniform date prior to September 30, 1998, for setting levy override elections.

LB 806

LB 806 substantially modified the school finance formula. The bill collapsed the seven tiers that were used for calculating aid under LB 1059 (1990) into three, the standard, sparse, and very sparse cost groupings. The sparse and very sparse cost groupings are based upon students per square mile, proximity to another school, and physical size.

The bill also combined Class I schools with high school districts for purposes of calculating state aid. A K-12 or Class IV district together with its affiliated Class I's is a local system for purposes of state aid. Aid, including the income tax distribution, is calculated on local system basis only and is distributed to all members of the system based on each district's share of the weighted enrollment. The weighting provisions give students on Indian land or with limited English proficiency a weighting of 1.25. Local systems with a higher percentage of students on free or reduced lunch also weight such students at 1.25.

Budget authority of Class I districts is also limited to fit within the system. Class IV districts determine the budget authority of its Class I schools.

With K-12 districts and affiliated Class I districts, the Class I budget limit is the average of the per pupil cost for the Class I and the per pupil cost of the primary high school district's elementary function. Class I's may also ask high school districts to allow a higher budget limit for the Class I. Class I districts are prohibited from voting to exceed these limits on their own, but its residents vote with regard to a system-wide override vote.

Small schools were protected somewhat from large decreases in resources, defined as 10 percent or more. Funding was provided from a reduction in aid to districts that could not spend the increased aid from LB 806 without violating budget limitations. Also, no district could receive less than 85 percent of the prior year's distribution. LB 806 also provided that minimum effort with regard to property tax levy was 90 percent of the levy limit.

Changes in freeholding also affected small schools. Under LB 806, any owner of land may transfer that land to another district if the school has less than sixty students in grades 9-12, has voted to exceed the levy limits, and is located within fifteen miles of another high school.

LB 806 also defined core services for Educational Service Units as staff development, technology, and instructional material services and required state funding of these core services. The bill also eliminated county superintendents of schools as an elected, county office.

Finally, the bill stated the intent of the Legislature to appropriate enough school aid to assure that the local effort rate was not greater than ten cents below the levy limit. The accompanying "A" bill appropriated an additional $110 million to school aid for the first year of the levy caps, fiscal year 1998-99.

C. ***Legislation enacted in 1998 -***

<u>LB 149</u>

LB 149 recertified the 1999-2000 school aid to adjust for unforeseen problems with the procedures for estimating the prior year's total formula needs. The bill moved the certification date for school aid from December 1st to February 15th in order to remove the faulty estimating procedures. It also provided that the amount of aid will be that amount necessary to fund total formula needs, assuming a local effort rate equal to ten cents below the levy limit.

LB 306

LB 306 was originally advanced by the Revenue Committee in 1997 containing provisions dealing with local capital spending. The proposal would have created a state level Government Efficiency Commission to review capital projects proposed by local governments. Such projects could not have gone forward without approval from the Commission. The standards for approval included proximity to other available facilities and joint use by more than one government. LB 306 did not have sufficient support in the Legislature in 1997 and the Committee decided to carry the bill over to 1998 when it was gutted and replaced with a number of provisions to clarify parts of previously passed bills. Among the substantive changes, the bill:

1) Set out a time line for allocating levy authority for the miscellaneous districts without independent levy authority,

2) Reduced the notice required before a special election to exceed the limits from 50 days to 30 days,

3) Struck the provisions of LB 1085 (1996) that called for setting a preliminary levy that may only be changed after a special hearing. Instead, LB 306 calls for publication of the prior request and a special notice to change the prior year's request, and

4) Provided that the only county that allocates levy authority for a miscellaneous district is the county in which the greatest percentage of the valuation of the district is taxed.

LB 695

LB 695 provided an equalized aid program for counties. The program annually distributes about $6.0 million for counties with low valuation per road mile. The bill also provides that counties are to receive $35 per day for keeping state prisoners in county jails. Finally, the bill repealed LB 180 from the prior year.

LB 989

LB 989 extended the LB 299 (1996) spending limitations beyond fiscal year 1997-98. Several changes were made from the prior spending restrictions, but the basic structure of the prior expenditure limits on schools and revenue limits on other local governments remained. The lid was 2 1/2 percent, for 1998-99, but may be adjusted by the Legislature.

Local governments, other than schools, are also allowed to grow by the percentage of valuation growth resulting from improvements to real estate and the addition of taxable personal property that is in excess of the basic allowable growth percentage. The lid may be exceeded by one percent with a three-fourths vote of the governing body, and may be exceeded beyond that with a vote of the people. Excluded capital improvements were narrowed to mean only improvements to real estate. Thereafter, equipment purchases were no longer excluded, but one-time provisions for creating limited sinking funds were provided.

LB 1120

LB 1120 provided aid to rural and suburban fire protection districts individually, or pursuant to an inter-local agreement covering most of the fire districts in a particular county. If the rural population of the county is 80 percent served by a single fire protection district, or if districts that together represent 80 percent of the rural population in a county agree to levy the same tax rate, the state provides aid equal to up to $10 for each assumed rural resident. The program is funded from the state share of insurance premium tax and if the funds are inadequate, the aid is prorated.

The bill also provided for reorganization of fire protection districts and required all rural areas in the state to be included within a rural or suburban fire protection district.

LB 1333

LB 1333 redefined trucks for purposes of the motor vehicle tax and lowered the tax for light trucks and trailers.

LR 45CA

LR 45CA placed on the 1998 General Election ballot, four separate proposed constitutional amendments. Most of what was contained in LR 292CA that failed November 1996 was also contained in LR 45CA.

The first proposal was to amend Article VIII, Section 1 to strike the requirement that motor vehicle taxes be distributed to all political subdivisions in proportion to property tax levied. Instead the only requirement would be that the proceeds be distributed to counties, cities, villages, and school districts.

The second proposal was to amend Article VIII, Section 1 to provide for the merger or consolidation of counties or local governments. No merger of municipalities or counties could occur without approval of the voters of the county and any municipality to be merged. If the proposal is for the merger of one or more municipalities with one or more counties, the approval of voters in the rural areas, tabulated separately is also required. If the legislature provides for a merger of a city and county, rescission of such merger must also be provided for.

The third proposal was to amend Article VIII, Section 2 to limit the property tax exemption for government property to property used for a public purpose, as defined by the Constitution or the Legislature. If such property is not used for a public purpose, the Legislature is empowered to classify such property, exempt classes, and authorize taxation or payments in lieu of property taxes.

The fourth proposal was to amend Article III, Section 18, Article VIII, Sections 1,4, and 6, Article IX, Section 1, Article XI, Section 1, and Article XVII, Section 4; and repeal outright Article IX, Section 5 to strike all references to townships in the Constitution.

The first three issues were approved by the people and added to the Constitution in November 1998. The part of the amendment dealing with townships was rejected by the voters by a two to one margin.

D. ***Legislation enacted in 1999 -***

LB 87

LB 87 granted a new option to entities wishing to perform a service using an inter-local agreement. The bill allowed the entities to create a new, separate, entity called a joint public agency. A joint public agency is allowed to own property, make contracts, employ workers, have governmental tort immunity, and otherwise enjoy the benefits of a governmental entity. Other provisions of the bill dealt with governance, taxation, modification of the contract, expanding or dissolving the entity, and powers and duties of the joint public entity.

LB 141

LB 141 made changes in several areas of the statutes to harmonize those statutes with prior pieces of the property tax relief package. Perhaps the most substantive provisions dealt with calculation of the assumed rural population for purposes of fire district aid provided in LB 1120.

LB 142

LB 142 implemented that part of LR 45CA that required distribution of motor vehicle tax receipts among cities, counties and school districts only. Under LB 142, 60 percent of such receipts go to the school where the motor vehicle has situs, 22 percent to the county, and 18 percent to the city if applicable. In Douglas County, the city and county percentages are reversed. If the motor vehicle has a situs outside any incorporated municipality, the school district receives 60 percent and the county 40 percent.

As a result of this reallocation of motor vehicle tax receipts, the personal property tax exemption reimbursement aid provided to counties was reduced by $5.8 million, and redistributed $4.2 million to community colleges and $1.6 million to Natural Resources Districts.

LB 271

LB 271 implemented that part of LR 45 CA that provides that government owned property that is not used for a public purpose shall be subject to property tax. Under LB 271, government property that is leased to a private entity is subject to tax if the entity is not property tax exempt in its own right. The tax is the responsibility of the lessor unless the government entity chooses to collect and remit the tax through its lease payments. Each government entity is to report leases to the county assessor each January.

Public purposes are defined to include duties and responsibilities of the public entity as provided in statute. Property that is used for no purpose may be subject to tax to be paid by the government entity that owns the property or may be subject to in lieu of tax payments for public safety, emergency or street or road purposes. The bill was operative January 2, 2000.

LB 669

LB 669 changed the local effort rate for the county equalization program to limit the cost of the program to about $6.0 million.

LB 881

LB 881 used the Cash Reserve Fund for specific property tax relief programs. For 1999, $30 million of additional aid was provided to community colleges, distributed based on valuation. For 2000, $35 million from the Fund was to finance a direct credit against real estate taxes. Budget actions in 2000 eventually repeated the $30 million for community colleges, but reduced the credit program from $35 million to $25 million. Finally, the bill provided that $35 million be transferred to the General Fund in 2001 to help finance the state aid needed to fund the decrease in the levy limit for schools from $1.10 to $1.

E. ***Legislation enacted in 2000 -***

LB 968

LB 968 delayed implementation of the taxation of government property not used for a public purpose until January 1, 2001. The bill also made numerous other clarifications and changes.

F. ***Legislation enacted in 2001 -***

LB 142

LB 142 implemented that part of LR 45CA that permitted the Legislature to provide for the merger and consolidation of cities with counties. In addition to the constitutional requirements for voting, the bill provides that no merger of a city with a county may occur unless those residing outside cities or Sanitary and Improvement Districts concur. By the same token, such Sanitary and Improvement Districts are to be allowed to exist outside the consolidated entity.

The combined entity may levy a sales tax, but any area that previously had no local sales tax must vote in favor of extending the tax to that area. The maximum levy for a combined entity would be $1 per $100 of taxable value. Cities outside the combined entity may levy up to 90 cents (and S.I.D.s 85 cents), but must pay the combined entity for county services, not to exceed the equivalent of 45 cents.

An Intergovernmental Planning Commission is to be created to help steer the process and develop a plan for consolidation. The ballot may combine issues for approval such as elimination of county offices, extension of the sales tax, and approval of the consolidation.

IV. RESULTS OF THE ACTS PASSED BY THE LEGISLATURE

The following sections of the report will analyze local government structure and finance changes since 1995. This analysis generally will compare the 1995-2000 period with the prior five-year period. It will examine change with respect to the three goals the property tax relief packages of bills were intended to pursue.

Goal 1 - Restructuring local and state government services in Nebraska.

Goal 2 - Reducing the use of the property tax to finance public services.

Goal 3 - Restructuring state aid to local governments to enable reaching goals 1 and 2.

The report will examine these changes as they have occurred with respect to each type of local government entity, beginning with schools, and also with respect to taxpayers.

A. ***Schools*** - Schools provide the most dramatic example of government restructuring and state aid restructuring over the past five years. Schools have significantly reduced their use of the property tax as a means of financing public education. The Legislature's main policy initiatives which brought this result were budget limits, as found in LB 299 (1996) and LB 989 (1998), and levy limits, as imposed by LB 1114 (1996) effective in 1998. The restructuring of state aid by LB 806, implemented at the same time as levy limits in 1998, significantly reduced school general fund property taxes in that year. Consolidation incentive aid also was created, and unification of school districts became a new technique for school consolidation.

Schools were not subject to a general fund tax rate or levy limit immediately prior to 1998. Schools had been subject to levy limits on general fund operations from the 1870's up until the mid 1950's, when limits were repealed. All other types of local governments including counties, cities, community colleges and others had been subject to tax rate or levy limits throughout their history. In almost all cases those existing tax rates or levy limits for other governments were reduced by LB 1114.

Schools had been operating under state imposed spending limits since the passage of LB 1059 in 1990, and at that same time other governments began to operate under a property tax receipts growth limit. Schools spending growth limits were variable, with low spending schools allowed faster growth in order to equalize educational spending. These limits had been reduced in 1995 from a range of 4.5 percent to 6.5 percent, down to a range of 3.5 percent to 5.5 percent. The first phase of the property tax relief plan developed by the legislature provided for another reduction for the 1996 and 1997 school years. LB 299 removed the variable spending lid feature, imposed a two percent limit for 1996, and zero percent limit for 1997. School boards were allowed to vote for an additional one percent growth in each year, and 75 percent of school boards did vote for the additional one percent in both years. These budget limits were revised in LB 989 (1998), and made effective beginning in the 1998 school year. These limits were effective in reducing school property tax growth, which was reduced by half compared to the growth in the prior five-year period. Changes in school size and structure are shown in the tables below.

First, the number of school districts was reduced from 1995-1996 to fiscal year 2000-2001, as shown below:

Number of school districts -	1995	668
	2000	572

This is a decrease of 14.4 percent in the number of school districts providing school services. During the prior 1990-95 period, the number of districts had declined from 812 to 668, a 17.7 percent reduction.

School districts also became larger during this period of time, as shown below:

Average number of students in each district -	1995	432
	2000	498

There was an increase of 15.3 percent in the average number of students enrolled in school districts during this period. Over the prior 1990-95 period, the average size of district increased from 336 to 432, a 29 percent increase in the size of district.

However, schools also began to lose students from 1995 to 2000, as shown below:

Enrolled pupils -	1995	288,692
	2000	284,924

There was a decrease of 1.3 percent in the total number of pupils enrolled in public schools during the 1995-2000 period. Over the prior five-year period, public schools had student enrollment growth of 5.8 percent, increasing from 272,982 students to 288,692 students.

Despite these declining numbers of students and school districts, public schools added teachers to their staff during the period 1995-2000, as shown below:

Full-time teachers -	1995	19,869
	2000	20,651

During the 1995 to 2000 period, there was a net increase of 781 teachers statewide, or 3.9 percent in the number of full-time teachers over the previous five years. Over the prior five-year period, 1990-95, there was a growth of 1,242 teachers, or 6.9 percent in the number of full-time teachers in Nebraska.

Consequently, over the 1995-2000 period, there was a decrease in the pupil teacher ratio, as shown below:

Statewide pupil/teacher ratio -	1995	14.5
	2000	13.8

This represents a decrease of five percent in the pupil teacher ratio. Over the prior five-year period, 1990-1995, the decrease in the pupil teacher ratio was nine tenths of one percent, as teachers were added at a rate which was just able to keep up with the growth in pupils over the period without making significant reductions in the pupil teacher ratio. Almost all the growth in teacher numbers and reduction in the pupil teacher ratio over the past decade, and in the past five years, has taken place in the state's metropolitan area schools, which have seen significant reductions in the pupil teacher ratio.

Over this recent 1995-2000 period, total resources for school general fund operations grew, while the sources of those funds changed. [1] Total receipts for school general fund operations is shown below:

Year	General Fund Receipts
1995-1996	$1,573,471,208
2000-2001 (est.)	$1,920,667,701

There is an estimated increase of $347,196,493 or 22 percent in total receipts for general fund operations over the five years. This is a 4.4 percent per year growth in resources. While some of this is undoubtedly attributable to special education funding, that component was limited to five percent annual growth over this period and makes up only ten percent of the total. Measured in another way, there has been an increase in resources from $5,450 per student in 1995-96 to $6,741 per student in 2000-2001, an increase of 24 percent in resources per student. This is an increase averaging 4.7 percent per year in resources per student as compared to inflation that was 2.6 percent over the same period.

Over the prior five-year period (1990-95), school general fund resources grew over 25 percent, more than five percent a year on average. However, resources per pupil grew by only 18.3 percent, or 3.7 percent on average, as student growth accounted for some resource growth. Inflation was 3.3 percent annually over the same period.

The increase in real and personal property taxes used for school general fund operations is estimated to be nearly $100 million over the 1995-2000 period. The increase in other resources (state aid and other local receipts), is estimated to be $258 million over the same period.

During the 1995-2000 period, the annual growth rate in property taxes for general operations of schools is estimated to be 2.5 percent, while the annual growth rate in other receipts for general fund operations was 6.2 percent. In 2000, real and personal property taxes made up 46 percent of school general fund resources, down from 49 percent in 1995.

[1] Receipts figures taken from Annual Financial Reports of all schools. Total resources includes all forms of federal and state aid including special education, grants, income tax distribution, option student funding, and Educational Lands and Funds distributions, and all local sources of funding, including property taxes, motor vehicle taxes and pro-rate and motor vehicle distributions.

In the prior five-year period, 1990 to 1995, school general fund receipts grew 30 percent. Real and personal property tax growth during this period slightly outpaced state aid and other resources, with both sources averaging nearly 6 percent per year. The 1990-91 school year was the first year of new state aid under LB 1059, which dramatically increased the non property tax share. Property taxes and state aid then kept pace over the period of 1990-95 that followed the large LB 1059 state aid increase.

By 2000, schools used much less property tax for funding the general fund operations than they did in the first five years of the decade. This was achieved by providing increased funding with growth from state collected resources and, to a lesser extent, by restraining growth in school spending to 4.4 percent annually, a rate below the 5.0 percent rate of the prior five-year period. Growth in non property tax sources was over twice as fast as the growth in real and personal property taxes for school funding during the 1995-2000 period.

A trend toward increased use of property taxes for school bonds and building funds offset some of the reduction in use of school property taxes for school general fund operations. During the five-year period of 1995 to 2000, school bond property taxes grew from $54 million a year to nearly $88 million a year, a growth of 62 percent, or about 12 percent per year. A dramatic increase in the use of school building fund property taxes also occurred from 1995 to 1998, as schools anticipated LB 1114 limiting building fund property taxes. This growth has declined since then and now building fund tax use is at the same level in dollars as in 1995. Some, but not all, of this current building fund property tax is allowed as an exception to levy limits, authorized by amendments to LB 1114 adopted prior to its passage in 1996. Bonds and building funds represented the single largest erosion of the forecasted impact of the levy limits.

Additional budget and levy limit exceptions passed in the 1996, 1997 and 1998 sessions of the Legislature. Legislation authorized exceptions for lease purchases of school equipment, including buses, computers and copiers, completed prior to July 1, 1998 and early retirement or buy-out plans for teachers. These exceptions were used by many schools, and also offset the effects of the levy limits and budget limits. The extent of the use of these exceptions can be estimated and will appear in a separate Revenue Committee interim study report on LR 140.

The other major legislative policy change that affected the growth in school fiscal resources was the reallocation of state equalization aid resulting from LB 806, with some schools receiving larger shares and others smaller shares than under the prior state aid formula. Also affecting this trend was the availability of state funds for consolidation incentive aid for schools that chose to consolidate.

By substantially reducing the number of school cost calculation groups used in determining the need for state aid, the Legislature caused a reduction in the state aid amounts for schools with small enrollments. Modifications that created cost groups for sparse and very sparsely populated school districts isolated from other attendance centers mitigated some of this effect. The Legislature also added demographic student weighting factors for poverty and students with limited English language ability. School districts with economies of scale, or schools with student populations that are isolated and difficult to serve at the same cost as other districts, benefited from these changes.

Schools were also affected by the legislative change in motor vehicle taxation from a valuation and local property tax rate system to a uniform rate or excise tax system. Taxes on motor vehicles are now the same regardless of location within Nebraska. All variation in motor vehicle taxes paid now is attributable to the original manufacturers' suggested selling price and the age of the vehicle, or by the vehicle's location in a city that uses the wheel tax. Taxes on motor vehicles were reduced for most taxpayers under this new system, and most local governments experienced reduced funds from this source in the first year of implementation. In the first year of implementation, the statewide yield from motor vehicle taxation decreased by 20 percent.

In 1999, schools began to receive a larger portion of motor vehicle taxes. This was done pursuant to constitutional amendment and legislative enactment of a new motor vehicle tax distribution formula that allocates 60 percent of the receipts to schools, 18 percent to cities and 22 percent to counties, except in Douglas County where the county-city proportions are reversed. If the vehicle is not registered in a city, the county government receives a 40 percent share. Authority for collecting motor vehicle taxes was removed for sanitary and improvement districts, townships, community colleges, fire districts, natural resources districts and other local governments.

These changes in motor vehicle taxation took place over the period 1996 to 2000. They produced some budgeting complexities for schools and other governments, although the effect on net resources for schools was mitigated for those schools and other governments receiving equalization aid, and further mitigated by the reallocation legislation put in place in 1999.

Schools have made limited use of powers to exceed the levy limits by voting. We estimate that at this date, ten school systems of the 263 systems now in existence may have voter permission to exceed the levy limits for the fall of 2001. We estimate that over the past five years, 22 school systems have successfully voted to exceed the levy limits for at least one tax year of the five. In the 2000-2001 tax year, just ten school systems exceeded the $1.10 levy limit with the permission of their voters.

No school system can be identified which has successfully voted to exceed the budget limits passed by the Legislature passed in 1998. (Voters living in the Lincoln Public School District voted twice in school year 2000-01 on a budget lid proposal and rejected it on both occasions.) This suggests that the budget growth allowed, including the exceptions to the growth limit allowed by law, have been deemed sufficient by most school district voters up to this point. Information from the Department of Education suggests that 68 percent of the school boards in the state successfully voted to use the additional one percent growth in budget authority allowed under the budget lid in the most recent budget lid period (2000-2001 school year).

The average levy subject to the $1.10 limit for all 270 school systems serving students in 2000-2001 was 99.5 cents per $100 of value, substantially below the limit of $1.10 and, in fact, just above the minimum levy effort established by the provisions of the state school aid laws.

In summary, through the imposition of lower budget lids in 1996, re-enactment of school general fund levy limits in 1998, and revisions to state aid distribution formulas effective in 1998, Nebraska schools have reduced the growth in their property tax resource use from that of the prior five-year period. The Legislature's actions and school responses reduced their use of property taxes for general fund operation to a growth rate that is less than half the rate of growth for the prior five years. The net impact on overall property tax use was less dramatic, as voter approved bond issues, and school board approved use of levy exceptions for building funds, lease purchases of equipment and teacher early retirement plans exceptions offset some of the impact on taxes for general operating purposes.

Schools have become larger in size during the past decade, although they have lower pupil teacher ratios. They have experienced a building boom with new and remodeled facilities in many school districts. Nebraska has achieved a top five ranking in the nation in the availability of computers to students, a development that has occurred during the last five-year period through the use of local, state and federal funds.

As the chart below illustrates, school property taxes for operations increased by about 14 percent over the recent five-year period, 1995-2000, for an annual rate of increase of 2.7 percent. This is in contrast to the prior five-year period, 1990-1995, when total school property taxes increased by 32 percent, or 6.5 percent annually. The growth rate in school taxes for operations has been reduced by more than half through a combination of state aid increases, operating budget growth controls and levy limits.

School Prop. Tax on Real/ Personal Property	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	Five-Year Increase	Average Annual Increase
General Fund tax only	$787,763,837	$815,379,270	$836,767,736	$782,692,035	$828,708,073	$902,939,174	14.6%	2.9%
Inc. in tax		27,615,433	21,388,466	-54,075,701	46,016,038	74,231,102		
% Inc. in tax		3.5%	2.6%	-6.5%	5.9%	9.0%		
Building Fund	$52,445,559	$61,737,694	$63,983,258	$53,509,721	$50,033,902	$52,574,188	0.2%	0.0%
Inc. in tax		9,292,135	2,245,564	-10,473,537	-3,475,819	2,540,286		
% Inc. in tax		17.7%	3.6%	-16.4%	-6.5%	5.1%		
Bond Fund	$54,211,981	$53,122,702	$57,234,852	$61,127,871	$71,804,520	$87,648,523	61.7%	12.3%
Inc. in tax		-1,089,279	4,112,150	3,893,019	10,676,649	15,844,003		
% Inc. in tax		-2.0%	7.7%	6.8%	17.5%	22.1%		
Total of all tax types	$894,421,376	$930,239,666	$957,985,846	$897,329,627	$950,546,494	$1,043,161,885	16.6%	3.3%
Inc. in tax		35,818,289	27,746,180	-60,656,219	53,216,868	92,615,391		
% Inc. in tax		4.0%	3.0%	-6.3%	5.9%	9.7%		

For taxpayers, the tax impact of the schools' shift from property taxes to other revenue sources was blended in with the impact of other local governments' use of the property tax. These other governments are counties, cities, community colleges and miscellaneous other local governments. To examine the total impact on taxpayers, the following sections of this report will analyze these trends by type of government, and then illustrate how those combined trends impacted taxpayers.

B. ***Counties*** - County government began the 1995 to 2000 period as the second largest user of the property tax as a source of financing public services. In 1995, they used 14.82 percent of the total property taxes levied. In terms of the share of expenditures paid for by the property tax, county governments are among the most dependent on this tax to pay for public expenditures. County government ended the decade using approximately the same share of total statewide property taxes, 14.81 percent.

Property taxes generated over 50 percent of the receipts for most counties in 1996. State aid, primarily from motor fuel taxes and sales taxes on motor vehicles, generated another 20 to 25 percent of total receipts. The property tax share of county revenue sources remained approximately the same as before, although motor vehicle tax receipts have increased from 14 percent to 25 percent as result of the change in the motor vehicle tax distribution described earlier. Motor vehicle tax receipts for counties in 2000 were about $37 million, compared to about $20.7 million from the property tax on motor vehicles in 1995. In response to this shift, the Legislature reduced the counties' share of the personal property tax exemption replacement funds by $5.8 million. This money was redistributed to entities that lost motor vehicle tax revenue under LB 142 (1999), $4.2 million to community colleges, and $1.6 million to Natural Resources Districts.

Nebraska has 93 counties, and none has been created, consolidated or merged since 1920. Legislation allowing counties to merge elected offices and perform the office function on a multi-county basis was passed in 1996 (LB 1085). It has been used only in Lancaster County where voters approved merging the offices of County Assessor and Register of Deeds.

Under LB 1177 (1996), counties were allowed to use the local option sales tax to substitute for property tax. This use was limited to funding joint public safety and countywide law enforcement functions. As of this date, no county has chosen to restructure city and county law enforcement and use this county sales tax revenue option, although it has been discussed by at least three county boards. Continued concerns expressed by city officials about the role of the elected county sheriff are seen as a barrier to county and city consolidation of law enforcement functions.

Legislation allowing counties to transfer property assessment functions to the state was passed, and at this date nine counties have transferred this duty from locally elected officials to professional staff employed by a state agency (Department of Property Assessment and Taxation.) This has had the effect of reducing the use of local property taxes by shifting funding to the state tax base. It does not significantly increase the ability of the county to fund other activities, as budget limits provide that the transfer of functions results in an equal reduction in budget authority for the county.

LB 1085 (1996) also mandated that each county perform a consolidation study. Some counties did these studies as groups of counties, in order to examine the potential for joint performance of duties. A particularly detailed multi-county study approach was taken in Dodge, Douglas, Sarpy, Saunders and Washington Counties. No counties performing these studies has yet consolidated any offices, functions or duties. Constitutional authorization has been granted for city and county merger, and the implementing legislation passed the Legislature in 2001. This may result in the merger of these two different forms of government, but has yet to be used by any local governments.

Two new state financial assistance programs for counties were enacted. A new county state aid program was created that addressed lack of property tax capacity to fund road services. The aid program is small, relative to county property tax use, with $6 million state funding representing less than three percent of county property taxes. It is targeted to counties with low fiscal capacity, as measured by valuation per road mile maintained. It mitigates some of the impact of the lower county levy limits imposed by LB 1114 on those counties that have high tax or levy rates due to low valuation and fiscal capacity with which to maintain current road services.

The Legislature also responded to other county cost and mandated service concerns by creating a state-funded program of county jail cost reimbursement. This was originally funded at $6.8 million, but use of these funds has not met this projection. Counties used only $2.3 million in the first year, 1999-2000, and an estimated $4 million in 2000-2001. Future appropriations set out in law provide $4.25 million a year for use in 2001-2002 and beyond.

All totaled, counties gained about $16 million in motor vehicle tax revenue, $4 million in jail reimbursement, and $6 million from an equalized aid program, and lost $6 million from the previous personal property tax replacement program. This is a net change of $20 million additional from state and local sources other than property taxes.

Counties also made little use of budget and levy limit exceptions. In fiscal year 2000-2001, only one of the 93 counties exceeded the levy limit established by the Legislature, which is also found in the state constitution. Rock County had a levy of $.59 per $100 of value in 2001, based on a countywide vote held to provide a property tax subsidy to operate a local health care facility. Only one other county had a levy in excess of statutory limit of $.45 in tax year 2000-2001, and this was the result of an interlocal agreement exception.

Also, county boards did not often vote for additional authority to spend the additional one percent allowed under the budget lid law. Less than half of the 93 counties voted to use this authority in the most recent budget year (2000-2001).

The county property tax use over the most recent five-year period is shown in the chart below:

County Property Tax	Tax Levy Year					
	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
Total tax	$219,804,194	$222,568,407	$229,054,745	$227,198,972	$229,116,147	$242,907,650
Percent Change		1.26%	2.91%	-0.81%	0.84%	6.02%
Five-year increase: 10.5%						
Average annual increase: 2.1%						

County governments' property taxes on real and personal property grew 10.5 percent over this period, a rate of 2.1 percent a year. The rate of growth for the prior five-year period, 1990-95, was 31 percent, or 6.2 percent annually. The combination of budget limits, levy limits and state aid increases, along with increased yields to counties from motor vehicle taxation, reduced the growth in property tax revenues to one third the level found in the prior period.

C. ***Cities*** - Restructuring cities and city services through consolidation or merger sometimes occurs, i.e., through annexation, but may be less common than restructuring service or function sharing agreements between cities. As with county levy limits, provisions were made for cities to have additional levy and budget authority for interlocal service sharing. An additional five cents of levy authority was granted to the $.45 levy rate limit mandated for cities, allowing a combined total of $.50.

City aid programs were also revised to reallocate $6 million of existing city aid, from a per capita distribution to fiscal capacity equalizing aid (valuation per capita). In addition, approximately six million new dollars of state general fund monies collected as a result of the local option sales tax collection fee were designated to be distributed through this equalizing aid formula, for a total aid impact of over $12 million. This program guarantees funding to the average level of property tax use for cities of similar size.

The aid program has three size groups, those cities over 5,000 population, those over 800 and below 5,000, and those incorporated villages below 800 in population. Aid not distributed through this new formula was distributed per capita in the following year. This aid program worked to mitigate much of the loss that cities might have experienced due to levy limits where the loss would have occurred due to low valuation or property tax fiscal capacity. Cities with above average property tax use (on a per capita basis) still experienced losses or cuts in resources under the levy limits, although valuation growth in excess of the rate of spending growth may have mitigated some of that loss for these cities.

Cities are the type of local government for which the levy limits may have been most restraining. In 2000, 213 of 510 incorporated municipalities were levying at a rate of 44.5 cents per $100 of taxable value or higher. These tended to be smaller cities and villages. The average population of these 213 municipalities is 588 and the largest of the group was Falls City, population 4,823.

Cities made more use of levy limit exceptions than counties. To the best of our knowledge, in tax year 2000-2001 nine of the 510 incorporated municipalities using the property tax have chosen to exceed levy limits established by the Legislature. All were villages that voted to exceed the limits at a town hall meeting as provided by LB 1114 (1996). Approximately 50 municipalities used the extra five-cent levy authority for interlocal service agreements during the 2000-2001 tax year. Over half the incorporated municipalities in Nebraska had successful city council votes to use the additional one percent budget authority allowed in the most recent fiscal year. Several growing cities had much higher allowable growth rates based on the addition of newly constructed or annexed property allowances found in the budget lid. Very few cities voted to exceed the budget lids imposed by LB 989. Unfortunately, no records exist of votes prior to 1999 on budget or levy overrides by cities. A newly developed data base available from the State Auditor's office shows that two villages voted to exceed the budget lid in 1999 (1999-2000 budget year), and three in the year 2000 (2000-2001 budget year).

Cities also made greater use of the local option sales tax after the levy limits were imposed. In 1996, prior to the Legislature's property tax reduction and relief enactments, 70 cities were using the local option sales tax. Today, 109 cities are using the local option sales tax. Of the cities using this tax in 1996, ten cities have increased the rate from the rate used in 1996, most from one percent to 1.5 percent. Since the sales tax is restricted under budget lids passed by the Legislature, the increases would for the most part be used to replace property taxes, rather than increase spending on public services. Increased spending could have resulted, however, given the budget lid exception for capital improvements to real estate. This exception makes it possible to use the increased revenue from any source for infrastructure projects and, therefore, would not result in the corresponding reduction of the city property tax when imposing a local option sales tax.

The impact on cities' property tax use is shown in the chart below:

City Property Tax	Tax Levy Year					
	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-2001
Total tax	$167,164,365	$168,378,860	$175,080,143	$175,402,964	$186,516,508	$190,522,228
Percent Increase		0.73%	3.98%	0.18%	6.34%	2.15%
Five-year increase: 14.0%						
Average annual increase: 2.8%						

City property taxes on real and personal property grew by 14 percent over the 1995-2000 period, an annual increase of 2.8 percent. Over the prior five-year period, city property taxes grew by 18 percent, for an annual increase of 3.7 percent. While this is not a large decrease in the growth rate, as in the case of counties and schools, the city property tax had been growing a slower rate than counties or schools in the prior period. Cities' use of the local option sales tax, and its growth rate, is probably the primary reason for the slow growth in the property tax over the prior and current period.

Much of the city property tax growth in the recent period is due to more extensive use of property taxes for bonded debt projects. Unfortunately, the data for the period prior to 1996 on city bonded debt is not reliable as to city bond taxes versus other taxes. (Schools have been under a more detailed state reporting mandate since 1990, while cities have only recently begun to report bonds separately due to legislation passed in 1996.)

Shown below is the record since 1997 of bonded debt versus other city non-bond property taxes.

City Property Taxes	1997-98	1998-99	999-2000	2000-2001
Non-Bond	$137,276,124	$127,855,860	$133,015,667	$133,748,282
Growth in $		- $ 9,420,264	$ 5,159,807	$ 732,615
Percent growth		-6.86%	4.04%	0.55%
Bond	$ 37,804,019	$ 47,547,104	$ 53,500,841	$ 56,773,946
Growth in $		$ 9,743,085	$ 5,953,737	$ 3,273,105
Percent growth		25.77%	12.52%	6.12%
Non-Bond three-year increase: -2.6% Non-Bond average annual increase: -0.9%				
Bond three year increase: 50.2% Bond average annual increase: 16.7%				

City use of property taxes for non-bond purposes actually decreased 2.6 percent over the period 1997-98 to 2000-2001, while bonded debt use of the property tax increased by 50 percent. This increase was largely driven by voter approved city bonds in the state's two largest cities, Omaha and Lincoln, but bonds were approved in some other cities as well. Some factors offsetting the increase in city non-bond property taxes include increased state aid for many cities with high rates, increased motor vehicle taxes for cities relative to the prior share received, and dramatic growth in the use of city sales tax.

D. ***Other Governments*** - Significant policy changes were implemented for other units of local government during this period, and will be touched on briefly here.

1) Community Colleges - Nebraska has six community college areas covering the entire state, and none has been eliminated or merged over the past decade. These local governments had a substantial reduction in the levy limit they faced prior to 1996, and received $14 million additional state aid through a newly developed cost sharing formula beginning in 1998. This aid was again substantially increased in 1999 due to $4.2 million in motor vehicle tax replacement funds and $30 million additional aid in 1999 and 2000 only due to LB 881 (1999). These increases

substantially reduced property tax levies for community colleges. In total, property taxes for the support of community colleges declined from $57.7 million in 1995 to $28.7 million in 2000. This represents a decline of 50 percent in the use of property tax.

This state aid was reduced by $30 million in the 2001 budget year, resulting in increased use of property taxes by community colleges when compared to the level of use in 1999 and 2000. In the end, however, community colleges will have reduced their use of the property tax as a source of revenue over the levels used in 1995 through increased use of state aid, and a reduction in the allowable levy rate.

2) Educational Service Units - These regional educational service providers have use of the property tax to fund joint services to schools who are members. The use of property tax by these local governments has been reduced significantly, due in part to a levy limit that is now less than half the prior limit found in 1996. An aid package was developed and passed that provides that the state fund core services delivered by all these local governments. One educational service unit out of 19 statewide was eliminated through merger during the past five years.

Educational Service Units as a whole reduced their use of the property tax from $20.5 million in 1995 to $13.7 million in 2000, a 33 percent reduction over the five-year period.

3) Natural Resources Districts - These regional environmental and resources development entities were created by consolidating a number of local governmental entities in the 1970s. Since then, two N.R.D.s have merged resulting in a total of 22 remaining N.R.D.s. No further merger activity has occurred since 1995.

State support of Natural Resources Districts increased from $700,000 to $2.3 million in 1999 to compensate for the loss of motor vehicle taxation. Nevertheless, property taxes in support of Natural Resources Districts increased from $21.5 million in 1995 to $27.7 million in 2000, a 28.6 percent increase, or 5.7 percent per year.

4) Fire Districts - There are five hundred active fire districts in the State of Nebraska, serving homes and businesses located outside

the limits of incorporated cities, and within some smaller cities. These districts' tax rates or levy amounts were not reduced by state law changes in 1996. In fact, permissible rates were increased for rural fire districts. Fire districts were, however, required to submit their tax requests to county boards who were expected to fit the combined county and fire district levy under the $.45 levy limit, along with townships, hospital districts, county airport authorities, and many other local taxing bodies.

The results of the changes were mixed. This was a new relationship for all counties and fire districts, and many counties and fire districts found it difficult to adjust to change. Some fire districts conducted town hall votes to exceed the levy limit after counties indicated they would not reduce county tax use to fit the combined levy under the limit. Others began a negotiation process that they had little experience with and found a compromise solution, which was made easier as valuation growth enabled rate reductions and provided for more room for negotiation.

Other fire districts took advantage of changes in state law which provided an incentive to get all fire district levies in the county to the same rate and obtain state support through LB 1120 (1998). Under this law, fire districts in a county that agreed to participate in a joint agency using a common levy rate receive state aid based on a per capita formula. These funds were provided by redirecting $3.2 million of state collected insurance premium taxes from the state general fund budget to this program. Twenty-three counties have cities and fire districts participating in mutual finance and common fire levy. In 2000-2001 fiscal year, $2.6 million of the available funds were distributed. This program has been effective in encouraging mutual finance and a uniform levy, making levy allocation by county boards simpler.

However, property tax usage by fire districts has not been reduced over the 1995 to 2000 period. Most of these state funds arguably have been used to equalize tax rates, and encourage adequate or even improved fire service in fire districts. In 1995, fire districts levied $14.57 million in property taxes. In 2000, the amount had increased to $18.9 million, an increase of 30 percent, or 6 percent per year.

E. ***Estimated Impacts on Taxpayers*** -

This section of the report will look at the changes these Legislative enactments have had on property taxpayers rather than governments. It will ignore the reasons for the changes. This section will begin by examining overall results, meaning the total amount of property taxes levied in Nebraska. Impacts on sectors such as residential, or agricultural will follow, and finally, the report will look at typical taxpayers living in individual communities.

It should be noted that all of the analysis contained in this report does not consider the effects of the property tax credit that appeared on tax statements in 2000. All information is derived from taxes levied. Actual tax burdens in 2000 were less by about three cents per $100 of taxable value, or $30 on a $100,000 home.

1) Overall results -

From 1995 to 2000, total property taxes on agricultural, commercial and industrial, and residential property increased from $1,389 million to $1,553 million, a total of 14.1 percent or 2.82 percent per year. For the previous five-year period, the increase averaged 6.1 percent per year. The rate of increase was less than half as much as the previous period. Average annual inflation over this time was 2.6 percent so the total increase was slightly higher than the rate of inflation.

By comparing the increases in agricultural land and personal property, commercial and industrial property, and residential property, this analysis eliminates the impact of the motor vehicle tax change in 1998. The impact of this may also be examined by adding motor vehicle taxes to the three-sector total; that is, including the property tax on motor vehicles for 1995 through 1997 and the combined total of motor vehicle taxes and fees for 1998 through 2000. When motor vehicles are added to the mix, the rate of increase for the 1995-2000 period declines slightly to 2.79 percent annually, still a little more than the rate of inflation.
These changes are shown in the table below:

Property Tax Increases by Economic Sector from 1995 to 2000						
	Agricultural Real & Personal Prop. Taxes	Residential Real Property. Taxes	Commercial Real & Personal Prop. Taxes	Total Taxes from the three sectors (no MV)	Motor Vehicle Taxes	Total taxes, including motor vehicle taxes
Annual change - 1995						
1996	1.93%	4.92%	3.89%	3.81%	3.13%	3.75%
1997	0.61%	4.71%	4.98%	3.63%	-16.03%	1.81%
1998	-7.06%	-3.49%	-5.04%	-4.85%	15.89%	-3.27%
1999	1.10%	4.43%	3.30%	3.26%	7.67%	3.66%
2000	4.66%	7.08%	13.03%	7.96%	4.00%	7.58%
1995-2000 growth -	0.84%	18.56%	20.92%	14.11%	12.37%	13.95%
Average change -	0.17%	3.71%	4.18%	2.82%	2.47%	2.79%

As noted previously in this report, much of this increase is due to voter approved bond issues. Property taxes to service school bonds increased 12 percent annually over this period and property taxes for municipal bond purposes increased 16.7 percent annually for the three-year period from 1997-98 through 2000-01.

While there is no data to allow us to exclude the impacts of bonds issued by governments other than cities and schools, or city bonds prior to 1997, we can adjust for those bonds that we can quantify. When the overall increase in property taxes due to voter approved school bonds issued from 1996 through 2001 and municipal bonds from 1998 through 2001 are excluded, the rate of annual increase in total property taxes drops to 2.1 percent. Stated another way, one-fourth of the total increase in property taxes over this period is attributable to school bonds approved since 1996 and municipal bonds approved since 1998.

This analysis still does not consider voter-approved levies in excess of the limits. Given what we know and can analyze, it seems clear that property tax increases since 1995 are less than the rate of inflation when levies approved by voters are excluded.

Tax rates - Because rapid valuation growth would have caused a decline in property tax rates regardless of the efforts of the Legislature to reduce dependence on the property tax, this report had focused on the amount of taxes levied in dollars, not the rate of taxation. Still it is worth noting that the average property tax rate for tax year 2000 was $1.8578 per $100 of value. This rate is 22.3 percent lower than the 1995 rate of $2.3896 and is the lowest average property tax rate since the statistic has been recorded, beginning in 1967.

Also, this reduction in the property tax growth rate has been achieved using the growth in the economy and not increases in other taxes. During the 1995-2000 period, there were no increases in the rates of any other taxes to finance the large increase in state aid to local governments. In fact, income taxes were cut modestly in 1997 and the state sales tax rate was cut by one-half percent temporarily in 1998-99.

The following table shows 32 years of major state and local taxes as a percent of personal income. The long-term trends can be easily seen. Growing sales and income taxes have replaced not only property taxes, but also gas taxes, motor vehicle fees and other miscellaneous taxes and fees. The recent five-year period has continued this trend without increasing the overall level of taxation. In 1995-96, the total of all major state and local taxes consumed 10.86 percent of the personal income of Nebraska residents and businesses. In 2000-01, the overall tax take had declined to 10.22 percent of Nebraska personal income.

Our conclusion that the overall level of taxation has declined over this period is supported by the annual Tax Burden Study conducted by the Department of Finance of the District of Columbia. This study will be detailed later in this report, but in summary, the District of Columbia Tax Burden Study shows declines in the overall level of taxation for an Omaha resident taxpayer from 1996 to 1999 in all the income profiles that were modeled.

2) Sector results -

The table below shows the 1995 to 2000 results broken down by economic sector:

	Agricultural Real & Personal Prop. Taxes	Residential Real Property Taxes	Commercial Real & Personal Prop. Taxes	Total Taxes from the three sectors (no MV)	Motor Vehicle Taxes	Total taxes, including motor vehicle taxes
1995	$409,218,337	$668,753,811	$359,602,693	$1,437,574,841	$147,161,572	$1,584,736,414
1996	417,099,023	701,683,292	373,602,349	1,492,384,664	151,769,244	1,644,153,907
1997	419,630,686	734,704,131	392,204,115	1,546,538,933	127,434,942	1,673,973,874
1998	389,991,827	709,085,804	372,421,928	1,471,499,559	147,685,803	1,619,185,362
1999	394,285,724	740,491,341	384,694,144	1,519,471,209	159,009,346	1,678,480,555
2000	412,656,046	792,896,927	434,818,084	1,640,371,056	165,369,719	1,805,740,775
1995						
1996	1.93%	4.92%	3.89%	3.81%	3.13%	3.75%
1997	0.61%	4.71%	4.98%	3.63%	-16.03%	1.81%
1998	-7.06%	-3.49%	-5.04%	-4.85%	15.89%	-3.27%
1999	1.10%	4.43%	3.30%	3.26%	7.67%	3.66%
2000	4.66%	7.08%	13.03%	7.96%	4.00%	7.58%
1995-2000 growth -	0.84%	18.56%	20.92%	14.11%	12.37%	13.95%
Average change -	0.17%	3.71%	4.18%	2.82%	2.47%	2.79%

For purposes of this analysis, farm home sites are treated as agricultural property. In 1998, the Department of Property Assessment and Taxation changed the classification of farm home sites from agricultural to residential property. To assure that the sector analysis is fair, farm homes must be classified the same way throughout. We chose to treat them as agricultural property.

As this table shows, there was very little growth in property taxes levied on the agricultural sector. According to U.S. Department of Agriculture statistics, Nebraska total farm income increased eight percent from 1995 through 1999. Property taxes as a percent of total farm income declined over the period as a result. Unfortunately, net farm income is down 19 percent over this same period.

When examining changes in different areas of the state, taxes on the agricultural sector are lower in the 2000 tax year than in the

1995 tax year in 44 of the 93 counties in the state. These 44 counties represent 45 percent of the agricultural value.

Generally, those counties where taxation of agricultural land, improvements, personal property and residences increased were those counties where the tax burden was lowest to begin with. Of the five counties that had the lowest average tax levy on agricultural property in 1995, four saw increases in taxes levied on the agricultural sector in the 1996-2000 period. Conversely, four of the five counties with the highest average levy on agricultural property in 1995 saw decreases in property tax burden on the agricultural sector.

What this demonstrates is the effectiveness of equalizing aid programs, especially school aid in narrowing differences in property tax rates across the state.

For other types of businesses and homes, the growth was higher. In part this is due to the issuance of voter approved municipal bonds and school bonds in the urbanized school districts, which contain little or no agricultural value. It is also an effect of the growth of newly constructed and therefore previously untaxed residential or commercial property primarily in urban areas. New properties constructed and not previously taxed begin to share the tax load with the current properties in those places, and this broadened base reduces the tax burden of owners of existing properties. As a sector however, the residential property value and commercial value sector begin to pay a larger share of taxes, while no "new" agricultural value is created. (Farmland is removed from taxation as farmland to become residential or commercial property.)

The following section will describe changes for certain geographic areas, with a group of incorporated places examined for the change in property tax on residential properties.

3) Property tax burdens in sample communities -

Because each community and its local governments had a different experience under these state policies to reduce property tax levels, we chose to examine 25 communities' property tax rates and average residential value over the period 1995 to 2000. This sample of communities had easily obtainable combined property tax rate information for each year between 1995 and 2000 due to the presence of a tax increment financed project. The sample group included the state's four largest communities and a few much smaller incorporated places.

Because results varied in the level of change, rate of change, and which local government was responsible for the most change, we have further analyzed these changes by type of government. Shown below are the property tax amounts for each of the last five years in 25 sample communities. The results were determined by the following method. Each combined rate was multiplied by the average house value for the county in which the city was located for each year. For example, if the average house value in that county was $50,000 in 1995, and increased to $55,000 in value in the following year, the 1996 rate and subsequent taxes were calculated by multiplying the new 1996 rate times the 1996 increased value. This method is illustrated below using the statewide average residential value, and the statewide average rate to calculate a result for each year, and a five-year average.

Residential Statewide Average	Tax Year						Five Year Change	Five-year Average Annual Change
	1995	1996	1997	1998	1999	2000		
Assessed Value	$48,637	$52,636	$57,024	$61,931	$67,569	$72,281	48.61%	9.7%
Average tax rate	$2.5260	$2.4744	$2.5114	$2.1073	$1.9909	$1.9718	-21.94%	-4.4%
Taxes levied	$1,229	$1,302	$1,432	$1.305	$1,345	$1,425	16.00%	3.2%
Annual change in tax		6.0%	10.0%	-8.9%	3.1%	5.9%		

The increase in average residential value is dramatic, totaling nearly 49 percent or nearly 10 percent per year. The impact of this valuation increase on taxes is moderated by a reduction in statewide average rate in each year. The sustained five-year growth rate averages 3.2 percent over the period examined. Since the average decrease or change is unlikely to be accurate for any single community, we have taken the method to the next level of analysis, using the 1995 to 2000 house value, rates and tax results specific to individual communities in individual counties, rather than a statewide average. Again, the method used is to take the county average house value times the combined rate shown in the community in each year shown.

Property Taxes on Average Home in Year Shown

City	1995	1996	1997	1998	1999	2000	Five Year Change	Average Annual Percent Change
Hastings	$ 947	$ 1,006	$ 1,362	$ 1,321	$ 1,415	$ 1,486	57.0%	11.39%
Geneva	677	830	934	795	830	973	43.8%	8.76%
NE City	1,073	1,054	1,216	1,384	1,421	1,418	32.1%	6.42%
Sidney	801	898	888	785	806	1,002	25.1%	5.03%
So. Sioux City	1,036	1,048	1,115	1,104	1,086	1,277	23.3%	4.66%
Norfolk	960	1,001	1,103	1,034	1,106	1,136	18.3%	3.67%
Aurora	999	1,001	1,080	990	1,054	1,162	16.3%	3.25%
Sutton	746	771	789	819	844	846	13.5%	2.69%
Bellevue	1,795	1,896	1,933	1,900	1,926	2,035	13.4%	2.67%
Kearney	969	985	1,082	1,015	1,026	1,097	13.2%	2.64%
Lincoln	1,851	1,967	2,010	1,961	2,057	2,079	12.3%	2.46%
Ralston	1,874	1,976	1,995	1,832	1,977	2,097	11.9%	2.37%
Grand Island	1,405	1,472	1,520	1,550	1,532	1,560	11.0%	2.20%
Plainview	880	851	993	765	759	963	9.4%	1.89%
Chadron	797	867	1,023	803	670	871	9.3%	1.86%
Broken Bow	611	608	666	562	561	655	7.2%	1.44%
Omaha (OPS)	1,777	1,811	1,812	1,723	1,725	1,843	3.7%	0.74%
Beaver City	560	600	636	511	535	577	3.1%	0.61%
Lexington	926	918	1,038	857	926	945	2.1%	0.41%
Scottsbluff	970	954	957	888	869	970	0.0%	0.00%
Plattsmouth	1,580	1,746	1,693	1,505	1,492	1,565	-1.0%	-0.19%
Gering	969	981	957	890	927	942	-2.7%	-0.55%
York	1,137	1,206	1,278	1,249	1,109	1,035	-9.0%	-1.79%
Clay Center	790	808	776	621	637	672	-14.9%	-2.99%
Gothenburg	1,227	1,166	1,160	844	819	885	-27.8%	-5.56%

The following table shows 51 community examples that illustrate the many differences that exist in the experience of property tax relief. Twenty-five of the examples are from the original sample of communities shown earlier in this report, where a five-year, year by year analysis of the typical experience was shown.

We note here that there are some differences in the tax impact shown in the group of 25 cities and those same cities when shown in the group of 51 communities. The impact on cities in the group of 51 are believed to be more reliable, but do not take a year-by-year approach. These differences in impact stem from the use of tax increment finance combined rates to determine tax impact, and combined tax rates calculated by examining residential situations. Tax increment financing rates reported for some communities appear to include levies which only apply in the tax increment financing area, i.e., special districts and/or special assessments. Often these rates do not apply to residential property outside the business development area.

Some additional examples were chosen to both broaden the view of the experience to include more communities, and places in different geographic locations and situations. Some were added to illustrate differences in experiences due to local votes to exceed taxing or spending limits, or choices in governance. This table and its results show the longer-term impact of property tax relief measures only, contrasting taxes paid in 1995 to taxes paid in 2000. Any decreases that occurred in 1998 are not shown separately in this analysis, which focuses on the results after five years. (In the original sample of 25 communities, 22 of 25 communities analyzed had decreased tax burdens in 1998, when compared to the 1997 level.)

In this group of 51 places, the property tax amount in 2000 is lower than that of 1995 in 13 of the 51 examples. The increase is higher than inflation in 19 of the 51 communities. (Inflation over the five-year period is estimated at 13.4 percent.) This result is not surprising, given that these communities were deliberately selected to show both the high population growth and levy override communities, both of which might be expected to have higher growth rates.

Examining growth of household income over the same period would complete the tax period analysis. Income growth would also vary by community. A reasonably reliable measure would be county median household income for each community, and its growth from 1995 to 2000, as generated by the Census Bureau. Unfortunately, these county estimates are not yet available. Results for the American Community Survey for Douglas County suggest that the growth in median household income in that county may have been 26 percent over the 1995-2000 period, which might be higher than that found generally for the state. Applying the lower growth rate for the state of 22 percent over the period, based on examining the statewide trend for 1994 to 1999, we suggest that ten of these 51 communities have a higher property tax burden relative to median household income in 2000 than in 1995.

Communities added to illustrate impacts of enacted school or city levy overrides, or that voted and failed to enact levy overrides are listed below.

Scotia (Greeley County), city levy override
Greeley (Greeley County), city levy override
Bertrand (Phelps County), city levy override and
city budget overrides
Chappell (Deuel County), school levy override
Oxford (Furnas County), school levy override
Johnson (Nemaha County), school levy override
Omaha Westside (Douglas County), school
district levy override
Hebron (Thayer County), school levy override
Wausa (Knox County), school levy override, and
use of township taxation of city property
Bloomfield (Knox County), school levy override, and
use of township taxation of city property
Stuart (Holt County), township taxation, no overrides
Morrill (Scotts Bluff County), failed school levy override

(We note that two communities in the original sample of 25 cities have also experienced failed levy overrides, Ralston and Lincoln, which also had two failed votes to override budget limits.)

Other communities were added to include some communities that went through mergers or consolidations of school districts. These are Trenton (now part of Hitchcock County School District), Fairmont (now part of Fillmore Central School District), and Davenport (now part of Bruning-Davenport School District, Thayer County).

Communities' Residential Tax Change 1995-2000					
Community (and school)	1995 Residential taxes	2000 Residential taxes	Change in tax	Percent change over 5 years	Percent annual change
Scotia	$ 454	$ 796	$ 341	75.1%	15.02%
Hastings	946	1,486	540	57.1%	11.42%
Greeley	384	562	178	46.3%	9.27%
Geneva	677	977	300	44.3%	8.87%
Paxton	814	1,083	269	33.1%	6.62%
Nebraska City	1,073	1,408	335	31.2%	6.24%
Bertrand	898	1,171	273	30.4%	6.09%
Fairmont	832	1,068	236	28.3%	5.67%
Sidney	800	995	195	24.4%	4.87%
So. Sioux City	1,035	1,276	241	23.3%	4.66%
Sarpy SID	2,169	2,612	444	20.5%	4.09%
Papillion	1,888	2,270	382	20.2%	4.04%
LaVista	1,889	2,268	379	20.0%	4.01%
Omaha (Westside)	1,664	1,973	309	18.6%	3.71%
Aurora	996	1,162	166	16.6%	3.32%
Norfolk	960	1,113	153	15.9%	3.19%
Grand Island	1,355	1,559	205	15.1%	3.03%
Omaha (Millard)	1,731	1,985	255	14.7%	2.94%
Johnson	730	828	98	13.4%	2.69%
Kearney	969	1,097	128	13.2%	2.64%
Stuart	669	756	87	13.0%	2.59%
Sutton	743	836	94	12.6%	2.53%
Lincoln	1,852	2,079	227	12.3%	2.45%
Wausa	601	674	73	12.1%	2.42%
Coleridge	887	993	107	12.0%	2.40%
Elkhorn (SID)	2,089	2,333	244	11.7%	2.34%
Bellevue	1,795	1,978	183	10.2%	2.04%
Bloomfield	576	632	56	9.7%	1.94%
Plainview	879	962	83	9.5%	1.89%
Chadron	806	871	65	8.0%	1.61%
Tecumseh	785	840	55	7.0%	1.40%
Davenport	685	732	46	6.8%	1.35%
Omaha (OPS)	1,777	1,843	66	3.7%	0.74%
Beaver City	559	577	18	3.2%	0.65%
Ralston	2,036	2,098	62	3.1%	0.61%
Imperial	807	828	21	2.6%	0.51%
Hebron	711	717	6	0.8%	0.17%
Bayard	661	660	-2	-0.2%	-0.05%
Oxford	621	619	-2	-0.3%	-0.06%
Plattsmouth	1,580	1,565	-15	-1.0%	-0.19%
Gering	967	957	-10	-1.0%	-0.20%

Communities' Residential Tax Change 1995-2000					
Community (and school)	1995 Residential taxes	2000 Residential taxes	Change in tax	Percent change over 5 years	Percent annual change
Chappell	680	672	-8	-1.2%	-0.23%
Morrill	1,034	1,021	-13	-1.3%	-0.25%
Lexington	935	920	-16	-1.7%	-0.34%
Scottsbluff	968	947	-21	-2.2%	-0.43%
Elkhorn	1,986	1,925	-61	-3.1%	-0.61%
Broken Bow	659	630	-30	-4.5%	-0.90%
York	1,127	1,027	-100	-8.9%	-1.77%
Clay Center	789	683	-106	-13.5%	-2.70%
Trenton	611	479	-133	-21.7%	-4.34%
Gothenburg	1,227	928	-299	-24.4%	-4.87%

Experiences in Sarpy County communities, including within Sanitary Improvement Districts, were analyzed. A similar effort was made in different Douglas County communities. These were added to this analysis to illustrate the results in growing communities, where rapid population growth, and value growth, may combine to show different impacts of restrictions. Some Douglas and Sarpy County S.I.D.s did override budget limits. Rapid school enrollment growth in these growing places does add to school spending authority under budget limits, and newly constructed property value growth does allow for additional spending growth for other local governments, primarily cities, counties and S.I.D.s. Neither budget exception, however, creates an exception to the levy limits.

A composite approach to S.I.D. taxation was developed, in part because S.I.D.s which closely border cities were annexed between 1995 and 2000, making the historical analysis of specific places difficult. The composite approach takes the S.I.D. taxation experience in S.I.D.s that have more than 50 percent residential property and calculates the average rate for those S.I.D.s. This was done for 1995 and 2000 in order to show the higher levels of taxation in these places, where infrastructure improvements and services normally paid by a city levy are paid for by an S.I.D. levy and fire district levy. This raises the tax burden for households in these places to a higher level than those that apply to homes located in the same school district and county which are served by a city government and its fire department.

In a similar fashion, a few communities were chosen to represent those where townships are used as a form of public finance and governance. Three communities of this type are shown. Townships are relatively unique as a feature of Nebraska local government. There are over twenty counties that use township governance. Most use it for funding road maintenance. In most situations, the township only taxes the value outside the limits of incorporated places, but in some instances, value of property in villages is also taxed. A few counties also use townships for library funding, including Holt, Valley and Butler. We have included one such library township community, and two communities where value inside a city is taxed by a township. This very unique feature of local government overlapping taxation and jurisdiction is noted not because so few places participate in the practice, but because it does allow higher levies with regard to the constitutionally imposed $.50 limit on county governments, and the city statutory $.45 levy limit. It is constitutionally permissible for a county with township governments to use both the county $.50 limit to its maximum, and levy an additional $.28 township levy on top of that. townships which tax property value inside village limits share this tax revenue with villages in some cases. This would allow the village to also use fiscal capacity above the levy limit capacity normally allowed a city.

Statutory levy limits imposed by LB 1114 limited townships by requiring that this additional township levy, plus that of the county, must fit under the statutory $.50 limit. Some townships voted to exceed the levy limits in the past five years. We estimate this number at 20 townships out of 500 statewide. However, it appears that the vast majority of townships either reduced the levy to fit the statutory county allocation plan, or in a few cases, no longer levy a township levy, using the county road funding program instead of maintaining a separate staff and equipment for road maintenance. Townships providing library service struggled to resolve this allocation dilemma, and in some Holt County cases, the township library service was eliminated and became a city funded service provided by taxes generated and value taxed by the city located in the township.

4) Independent Confirmation of the Results for Omaha -

An independent, national perspective on household tax burdens, including the burden of the property tax, can be obtained by examining the Tax Rates and Tax Burdens study periodically issued by the Department of Finance of the District of Columbia. This study is done at the request of Congress and compares tax burdens in the largest cities in all 50 states to that experienced in the District of Columbia. Omaha is examined as the largest city in Nebraska. The study looks at the burdens of income taxes, sales taxes and property taxes, as well as motor vehicle taxes. Five levels of household income are examined, from $25,000 annual income to $150,000 annual income. The progressivity of the entire combination of taxes is also examined. Household burdens are compared and ranked by city. For 1996 and 1999, Omaha tax burdens are ranked as shown in table below for each of the different income levels examined.

51 Cities Compared - highest burden being 1, lowest burden 51					
	Income Level				
	$25,000	$50,000	$75,000	$100,000	$150,000
Omaha - 1996	14th	14th	14th	14th	8th
Omaha - 1999	30th	28th	26th	26th	21st

This drop in ranking, from 14th highest to 28th for the $50,000 household, for example, was due in large part to a reduction in the property tax burden on these typical households. Nebraska local governments had decreased the property tax burden significantly, and changes in motor vehicle taxes had also affected the assumed state and local tax burden. Focusing on the $50,000 household income level, the changes from 1996 to 1999 are shown below:

Year	Income taxes	Property taxes	Sales taxes	Auto. taxes	Total	As Percent of Income
1996	$1,407	$1,886	$924	$500	$4,717	9.4%
1999	$1,292	$1,421	$987	$370	$4,070	8.1%
	- $115	- $465	+ $63	- $130	- $647	- 1.3%

As can be seen, the greatest dollar reduction is found in the area of property taxes, while the only increase shown is a result of increased consumption of sales taxable items assumed in the economic model used by the studies' authors. In other words, the sales tax rate or base did not increase, but consumption of taxable items did. This result for 1999 appears to ignore the impact of the one-year state sales tax reduction implemented for the last half of 1998 and first half of 1999. Omaha's combined sales tax rate on households for the last half of income tax year 1998 and the first half of income tax year 1999 would be 6.0 percent, versus the 6.5 percent used in this model, due to the one year cut in the state rate from 5 percent to 4.5 percent. Had this assumption been changed, the estimated sales taxes paid would have been lower by another $38, lowering Omaha's ranking one place. Nevertheless, we find the results defensible as a ranking methodology. Finally, it is worth noting that income tax rate reductions implemented in 1997 also appear to be a significant factor in reducing the level of taxation paid by this income level of household.

The study also suggests that the state and local tax system in Nebraska has become relatively more progressive as compared to other states, (i.e., higher tax burdens on higher income households than on lower income households). In 1996, Omaha ranked 24th most progressive, with Columbia, South Carolina, being the most progressive state and local system and ranked number one. Las Vegas, Nevada, was 51st, the least progressive, or most regressive system. Generally, states that use a progressive income tax to finance a larger part of their state and local tax obligations would rank as having a more progressive state and local system than states that use sales taxes aggressively to finance public services.

By 1999, the study suggests that Omaha had increased to be the 14th most progressive, with Boise, Idaho, being the most progressive, and Las Vegas, Nevada, again being 51st. Nevada is one of seven states without a state or local income tax, and makes extensive use of gambling revenues and sales taxes to satisfy its state and local spending needs.

This ranking change may be caused by three factors. First, Nebraska changed motor vehicle taxation to a progressive schedule. Second, the growth in the economy meant that income tax receipts grew faster than other tax sources. This made income taxes a larger share of the overall system by 1999. Finally, other states may have cut income taxes more than Nebraska, which devoted the largest share of surplus revenue to property tax relief.

V. CONCLUSIONS -

The following lists summarize the conclusions that can be drawn from the analysis of the property tax data, and the examination of changes in the structure of local government and state aid that supports it.

A. *Overall*

1) The rate of growth in property taxes as a whole was reduced when compared to the rate of growth before the property tax relief packages were implemented. The rate of growth in the 1996-2000 period was less than half that for the 1990-1995 period, and was nearly the same as the rate of inflation despite dramatic valuation increases.

2) The rate of growth in property taxes would have been substantially less than the rate of inflation had voter approved bond obligations not increased so dramatically over the period.

3) This reduced growth rate was due primarily to increases in state aid to local governments and tighter budget limits, especially in the 1996-97 and 1997-98 fiscal years.

4) Levy limits have limited property tax growth only in a few, exceptional or small areas, not enough to affect the aggregate level of property taxation. This was because valuation growth has been so rapid, a circumstance that may change in the future. If valuation growth abates with the slowdown in the economy, levy limits may become more relevant.

5) While there has been some consolidation in the school context, there has been virtually no increased merger or consolidation activity for any other local governments and it cannot be demonstrated that any actual efficiency of government service has resulted.

6) Property taxes have been lowered without increasing other taxes. In fact, as a percent of personal income, the overall tax burden was reduced from 1995 to 2000.

B. ***Effects on Taxpayers***

1) The most relief for taxpayers has been in the agricultural sector. There has been virtually no growth in total property taxes levied on the agricultural sector since 1995.

2) The increase in property taxes on the residential and commercial and industrial sectors since 1995 has been about four percent per year on average. Some of that growth was undoubtedly attributable to new construction, although we are unable to determine the exact share of the percentage growth.

3) Much of the growth in property taxation was attributable to the growth in voter approved bond obligations. In fact, the growth in city property taxes attributable to bonds accounted for more than 100 percent of the growth of city property taxes in total. The change for city property taxes excluding bonds was negative. If the growth in voter approved school bonds since 1995 and municipal bonds since 1997 are excluded, the growth in property taxes for residential property over the period was about two percent, well less than the rate of inflation.

4) Despite these factors, growth in property taxes has been at a lower rate than the rate of inflation in many incorporated areas of the state, including Omaha.

5) In most cases, where the growth in residential taxes was higher than average, such growth was attributable to county and city taxation, not school taxation.

6) The results for Omaha residents of the Omaha Public School District are independently confirmed by the District of Columbia Tax Burden Study that shows a reduction in property taxes of more than $400 for an average family of four with a $50,000 annual income from 1996 to 1999. The overall tax burden ranking for Omaha fell from 14th highest in the 1996 study to 28th highest in 1999 for this same family.

C. ***Effects on Schools***

1) Funding for school operations shifted to more state funding over the 1996-2000 period.

2) State aid to schools has not only increased, but a far greater share of it is now committed to equalization aid. This means that schools that are in areas with low valuation are better able to support average per pupil educational spending without high property tax rates.

3) Use of the property tax for operations grew less than the rate of inflation and half the rate of growth of the previous five-year period.

4) Increased bond levies, and other exclusions from the budget and levy limits cut into the reductions that would otherwise have been seen if operational levies were the only use of the property tax.

5) Reductions in use of the property tax were primarily due to the budget limits and state aid -- not levy limits. The average school property tax levy subject to the limit in 2000 is more than ten cents less than the levy limit provided by the statute.

6) Consolidation of schools occurred during this period, but not at a faster rate than the prior five-year period.

7) Reduced expenditures due to consolidation cannot be determined from the data. Resource growth, while less than the prior period, was still greater than inflation and the pupil-teacher ratio actually declined.

D. ***Effects on Counties***

1) Property tax growth over the 1996-2000 period was less than one-third the rate of growth for the prior period and less than the rate of inflation.

2) This was due primarily to motor vehicle tax reallocation and spending restraint. Motor vehicle tax reallocation added about $16 million of non property tax revenue to county resources over the period. Again, the levy limits have not come in to play except in very limited instances.

3) The loss of $5.8 million of personal property tax replacement state aid has been replaced by about $6 million of equalized aid, helping counties with low valuation per road mile meet their county road needs without high property tax rates. County jail reimbursement

funds have also increased state support of county government by about $4 million.

4) There have been no mergers or consolidations and no use of the county sales tax that was authorized. The only restructuring that has occurred has been state takeover of the assessment function in nine counties.

E. *Effects on Cities*

1) The property tax growth rate declined slightly from an already slow rate of growth for the 1995 to 2000 period.

2) Greater use of local sales tax was the primary reason. Increased state aid and motor vehicle tax reallocation played a less significant role and there has been no known consolidation or restructuring of city services.

3) Bond growth prevented greater reductions in the use of the property tax. Growth in property taxes for city operations was negative over the period while property taxes to support voter approved bond issues had double-digit annual growth.

4) A new state aid program provides over $10 million in equalized support to cities and villages with low valuation per resident.

5) Levy limits may have had a greater impact in the context of small municipal governments than was the case for local governments generally.

F. *Effects on Community Colleges and Educational Service Units*

1) Dramatically reduced use of property taxes by these regional local governments can be entirely attributed to restructured and increased state aid to accommodate levy limits that were well below the actual levies of all these local governments in the 1990-1995 period.

2) Increased state aid to community colleges has been equalizing, helping those community college areas where valuation cannot support 40 percent of the per student cost at a rate of tax less than the limit. Temporary, additional aid has been shared equally among the areas. The $30 million in additional aid was eliminated

in 2001, after the study period for this report, so the impact of its elimination is not reflected.

3) Financing of Educational Service Units was restructured rather than equalized so that the state now pays for core services.

4) Resource growth (i.e., property taxes plus state aid) grew by more than six percent annually over the period for both these entities.

5) Two E.S.U.s merged during the 1995-2000 period.

G. ***Effects on Natural Resources Districts***

1) There has been no reduction in the use of property taxes by N.R.D.s.

2) The loss of motor vehicle taxes was replaced by state aid, still the use of the property tax increased by nearly six percent per year over the period.

3) State aid to N.R.D.s continues to be non-equalizing.

H. ***Effects on Fire Districts***

Uniform levy incentive aid was utilized by fire districts to increase spending. There has been no detectable effect on the overall level of property taxation for this purpose. Any achievements in government efficiency have been limited.