

## **NEBRASKA TAXPAYERS FOR FREEDOM ISSUE PAPER: ACHIEVING PROPERTY VALUATION RELIEF IN THE LEGISLATURE.**

**BACKGROUND.** Nebraska homeowners, business owners, and industry owners for years have increasingly complained about the spiraling property valuations on their properties that causes their property taxes to likewise spiral. The problem has reached crisis proportions, whereby some citizens not only cannot afford to reside in their homes, mostly the elderly, but also younger folks cannot afford to purchase a home with such high property taxes. Unfortunately, the state legislature, in its continual efforts to alleviate this crisis, has concentrated on deflating the property tax load through rebate property tax credits. This solution is not a workable solution to the actual problem. Let us make a dandelion comparison.



Cutting off the top of the dandelion, the bright yellow part, appears fine. However, the dandelion root still survives and soon will grow another stalk. Similarly, property tax credits soften the blow of property taxes, but these taxes will continue to rise because of ever higher property valuations. Therefore, the only satisfactory solution to the property tax spiral is to control the increase in property valuation for all properties. Nebraska is embarrassingly archaic in its setting of property valuations compared to other states. NE rural agricultural and horticultural property currently taxed at only 75% of market value, whereas urban property currently taxed at between 92% and 100% of market value. Tax

fairness requires similar relief for urban residents. There exist several categories of solutions and variations within each. It is not a partisan or ideological issue; all property owners are bleeding.

**LIMITING PERCENTAGE INCREASE.** This solution would limit the increase in valuation to a small percentage each year, e.g., 2% or 3%. Note that current Douglas County Commissioners Mary Ann Borgeson, Jim Cavanaugh, P.J. Morgan, and Chris Rodgers once voted to drop valuation hikes to 3% or less.<sup>1</sup> The legislature could peg the increase to the increase in the Midwest Consumer Price Index (CPI) increase for a past year or years. Our state could apply a cap to all real property, not only residential categories. This automatic revaluation system would save county assessors much time and effort. Capping valuation increases is a method used in other states, e.g., any increase in the fair market value of real property attributable to the periodic countywide appraisal and equalization program limited to 15% within a 5-year period in South Carolina. In Arizona, valuations based on 20% of market value. Annual increases cannot exceed 5%. However, rolling back valuations to 2%-3% annually would leave countywide valuations below the 92% legal threshold and could drop valuations below market value. The Tax Equalization Commission (TERC) then could raise county valuations to reach the current threshold. Therefore, senators would have to change the current market value factor or disconnect market value entirely from valuing property.

**LOWERING THE PERCENTAGE.** State senators could lower the current urban percentage rate of 92% to 100% of market value to a lower percentage, e.g., 80%, upon which property taxation based. The percentage could fluctuate depending upon the health of the state economy.

**EXEMPTIONS.** The legislature could exempt a specific dollar amount or specific percentage of valuation from property taxation. **LB 695** in the 2023 legislative session would have allowed property owners to deduct the first \$25,000 of valuation from taxation. A particular dollar exemption would benefit lower income property owners more, whereas a percentage exemption would benefit middle class and higher income homeowners more. NE could adopt a specific school district or other taxing authority homestead exemption of \$-- for standard homeowners and \$-- for elderly and disabled homeowners. Regardless of income, all seasoned citizens over 66 years of age and the functionally disabled who have resided in their homes for at least 10 years would become eligible for a homestead exemption.

**TAX FORCED LOWER.** Legislation could require every local property taxing authority to lower tax rates to approximately neutralize valuation hikes or at least a percentage of valuation increases, an idea suggested by Douglas County Commissioner Jim Cavanaugh.

**MARKET CONDITIONS.** Overall valuations would drop, if housing market sale prices drop, then establishing a reset to that market value when sale prices increase again. Surrounding home valuations would not rise based on home sale prices in a neighborhood, but on average neighborhood sales prices.

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<sup>1</sup> Jan. 31, 2017 Douglas County Board of Equalization meeting.

**PILOTS.** Non-profit entities would become responsible for a Payment in Lieu of Tax, a small property tax, in order to pay for basic services such as police and fire protection and infrastructure improvement (See NTF issue paper douglascounty142.doc.).

**COMPLEMENTARY SPENDING CONTROL.** Because the lowering of property valuations will accrue less revenue to local property taxing authorities, they will loudly complain with the usual wailing that the reform process will not provide them with adequate revenue to provide needed services like police and fire protection and parks and library availability to residents and seek to raise property tax levies by large percentages to compensate. Therefore, state senators must clamp a firm spending cap on these taxing authorities, which will relieve the necessity for the desired additional revenue. Local taxing authorities will become more efficient from necessity, impelled to cut their bureaucracies and overlapping functions by ending duplication and merging services with other taxing authorities, consolidate offices and services, streamline every department through efficient management controls, and reduce or eliminate non-essential and non-mandated services. These taxing authorities no longer could blame huge valuation hikes for the higher property taxes they levy.

**PUBLICIZING IT.** Whatever relief becomes embodied in a legislative bill, taxpayers must lobby diligently and travel to the State Capitol to testify on such bill, offering their support and suggestions for amending it. The Revenue Committee also could hold hearings across the state during the legislative session to gain public input.



**OTHER SUGGESTIONS.** Enlarging the contents of a future bill could include an effort to abolish the Tax Equalization Review Commission (TERC), which continually has a long backlog of appeals upon which to reach decisions. The current appeal process to the TERC is so convoluted and tedious that exasperated homeowners sometimes wait over a year for a decision or decline to appeal valuation hikes. Transfer the appeal finalization decision authority to county boards of equalization. Preserving county appeal control would greatly negate the expense to appeal, saving money for appellants.

Reforming the valuation formula would save time and money for county boards of equalization, because fewer property owners would appeal their valuations. Publicize to homeowners their rights to appeal, particularly on county websites. Streamline the process to make it very transparent and understandable to taxpayers. Permit citizens easy access to valuation models and methodologies used. Increase the time window for appealing valuation changes and extend the deadline for hearing protests. Establish satellite offices to hear appeals. Land values should disappear from the valuation formula. Study valuation criteria in other states to see if NE valuation criteria could benefit from changes. Our archaic valuation system lags behind other states. Some, like Tennessee, peg their valuations at lower percentages of market value or exempt a specific percentage of property. NE in the past assessed property at 35% and 50% of market value. All owner-occupied dwellings win % exemptions in some places. Others limit increases to annual percentage hikes, e.g., New Mexico 3%. Improve criteria, like better defining "objectively verifiable data," or exempt home improvements from calculations.

**CONSTITUTIONALITY.** Because reform opponents could contest the constitutionality of property valuation reform in the legislature, proponents must seek the counsel of one or more noted constitutional attorneys to testify favorably on the constitutionality of the proposed bill. It may become necessary to introduce the legislation as a constitutional amendment. Douglas County Commissioner Morgan suggested that the state pass a constitutional amendment on valuation.

**TAKE ACTION NOW.** Keep people in their homes and businesses. Any of these relief suggestions would bring predictability to property assessments. We urge Douglas County Commissioners to go on record to support a legislative initiative for property valuation relief. It should not be the responsibility of county boards of equalization to continually attempt to deal with unfair, higher property valuations. State legislation required. A 2024 legislative bill will serve as a broadcast to every county assessor and local property taxing authority in the state that the Legislature is solemnly serious about stopping the accelerating spiral of property valuations. Citizens meanwhile should begin an informal petition drive to pressure state lawmakers to reform our valuation system.

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