NTF issue paper: legwatch401.doc. 7-26.

***NEBRASKA TAXPAYERS FOR FREEDOM* ISSUE PAPER:**

NEBRASKA TAXPAYERS SUFFER FROM SWISS CHEESE TAX LIDS.

BACKGROUND. Our state legislature has passed band-aid solutions to solve our statewide property valuation/tax crisis. Tax credits and loose lids have not stopped this accelerating situation. State senators may boast that these 2 methods are alleviating our property taxes, but skyrocketing tax bills prove otherwise. Tax cap exceptions produce Swiss Cheese tax lids that allow liberal elected officials to easily and frequently override these caps. This predicament partly explains why the average NE property tax bill is $3,402, above the national average by $210.

SWISS CHEESE LIDS. Our state tax levy restrictions, $1.05 per $100 of valuation for schools, $0.45 for several taxing authorities like cities and villages, and $0.50 for counties, supposedly limits revenue growth for taxing authorities. However, exceptions abound. The limit excludes new construction and only applies to operations paid for by tax levies. Other common exceptions include debt service payments, emergency appropriations, and a large number of state mandates. Persuaded voters easily can override lids and approve bonds. There is absolutely no protection from market-driven increases in property valuations. Two factors determine property tax bills: the local tax levy (rate) and the assessed value of the property. Though property tax lids like those implemented under **LB 34** constrain how much money local entities can collect from year to year, they do not stop the underlying assessed value of homes and agricultural land from rising. When valuations surge, taxpayers then see significant increases in their total tax burden, making the levy caps a poor relief mechanism.[1] Conservative critics contend that putting a cap on local tax levies inadvertently creates a floor instead of a ceiling. Political subdivisions, including school districts and local governments, frequently set their tax rates at the maximum legal limit to ensure that they can collect as much $$ as possible, leading to higher overall tax collections despite the imposition of a lid.

SCHOOL BOARDS. School districts constitute $3.2 billion of our state $5.3 billion property tax burden. School districts have 3% Swiss Cheese caps on tax hikes, which a school board easily can override by a 70% majority vote. Because spenders dominate school boards, overrides are common. A favorite ruse utilized by school boards is to not raise the levy but then bust the lid to the maximum extent.

CITIES AND COUNTIES. The legislature did place limits on annual taxing authority for cities, towns, and counties. However, these caps exempt costs for county attorneys and public defenders, court judgements, and emergency, fire, and public safety expenditures, which constitute a large amount of such budgets. A typical example is Omaha, which spends 60% of its General Fund on police and fire dept. costs, with legal and law enforcement costs rising along with a rising crime rate. Taxation permitted to increase based upon new construction along with a percentage increase based upon an inadequate index of state and local government spending. Unfortunately, this cap is higher than the average of state and local spending growth nationwide. Thus, **LB 34** specifically permits counties, cities, and villages to increase their property tax request authority annually based on 2 factors: growth in valuation from new construction and other qualifying growth, and an inflation percentage defined by law as the annual percentage change in “State and Local Consumption Expenditures and Gross Investment.” Most taxpayers would expect that a property tax cap tied to inflation would use the Consumer Price Index (CPI), a measure tied to the actual cost of goods and services that consumers experience in normal life. But NO, state senators tied allowable property tax growth to this wider index known as “State and Local Consumption Expenditures and Gross Investment.” This government measure can grow much more rapidly than consumer inflation. While CPI inflation hit from 2.7% to 2.9% in 2025 depending on the measure used, our state allowable growth factor over the past year reached about 5.7% before even accounting for additional valuation growth from new construction and other qualifying increases. Thus, our cap still allows local governments to increase property tax requests at rates far above what most taxpayers would consider inflation. Iowa lawmakers meanwhile passed praiseworthy legislation by generally limiting growth in property tax collections from existing property to 2% annually, excluding new valuation. Under the loose NE lid, a political subdivision still may raise its property tax request authority above the cap by the amount of property taxes budgeted for approved bonds. Authorities can carry forward unused

[1] Tax Foundation, Jared Walczak, Nebraska Property Tax Relief After LB 34, Jan. 15, 2025.

taxing authority from prior years, banking it for future use. This ruse allows them to request higher appropriations than necessary, then hoarding the revenue for future years.

THE WORST. The worst factor in our state property tax limitation legislation is that it applies mostly only to cities, towns, and counties. Education Service Units, the Learning Community, SIDs, airport authorities, etc. not covered. **LB 34** provisions did not place school districts, which gobble from 56%-60% of our property tax bills, under this new limitation act. Instead, the bill attempted to provide school district residents relief by offering state tax credits, together with heaps of state aid to these districts that did not stop the spiral of local property taxes. Instead of directly restricting local spending like other states, NE has heavily relied on property tax credits distributed to property owners.

THE CONSEQUENCES. Most taxpayers have found these delayed credits, rebates, and caps vastly outpaced by the concurrent annual rise in property valuations and overall tax bills. Consequently, both urban and rural property taxpayers cynically scoff at legislative property tax caps and must plan their personal budgets for regular property tax spikes. Spiking statewide annual property valuation increases directly lead to higher property taxes, a cycle unbroken by state senators beholden to taxing authority lobbyists.

TAKE ACTION NOW. Senior citizens leave for lower tax states. Young professionals also leave, knowing that their cost of living and housing will be less in lower tax states. Corporations seeking sites for expansion shun NE for states where their executives can pay lower property taxes. Our state economic growth stunted. NE taxpayers have 3 alternatives: 1) suffer like sheeple and simply complain about high property taxes, 2) move to another state, or 3) learn how to lobby our state senators to break the high property valuation/tax cycle. If you have the will power to take action, email **netaxpayers@gmail.com** for lobbying instructions.

Research, documentation, and analysis for this issue paper done by **Nebraska Taxpayers for Freedom**. 7-26. C