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Property Tax Relief in Nebraska: Progress Since 1995



PROPERTY TAX RELIEF IN NEBRASKA: PROGRESS SINCE 1995 (Executive Summary)

**NOTE: The following excerpt is only the Executive Summary of the memorandum.
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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% during this period and is now at the lowest level since 1967, the year the statistic began being kept.

A 50-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 50-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.

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