

**ONE HUNDRED SIXTH LEGISLATURE - SECOND SESSION - 2020**  
**COMMITTEE STATEMENT**  
**LB974**

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**Hearing Date:** Wednesday January 22, 2020  
**Committee On:** Revenue  
**Introducer:** Revenue  
**One Liner:** Change taxation and school funding provisions

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**Roll Call Vote - Final Committee Action:**  
Advanced to General File with amendment(s)

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**Vote Results:**

<b>Aye:</b>	6	Senators Linehan, Lindstrom, Kolterman, Groene, Friesen, Briese
<b>Nay:</b>	2	Senators Crawford, McCollister
<b>Absent:</b>		
<b>Present Not Voting:</b>		

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**Oral Testimony:**

**Proponents:**

Senator Lou Ann Linehan  
Douglas Kagan  
Joe Murray  
Loran Schmit  
Steve Nelson  
Bryan Slone  
Robert Johnston  
Nicole Fox  
Steve Ebke  
Lavon Heidemann  
  
Edward Herlein  
Bud Synhorst  
Bob Hallstrom  
  
Matt Jeolicka

**Representing:**

Introducer  
Nebraska Taxpayers for Freedom  
Self  
Self  
Nebraska Farm Bureau  
Nebraska Chamber of Commerce and Industry  
Nebraska Soybean Association  
Nebraska Platte Institute  
Nebraska Corn Growers Association  
Nebraska Cattlemen, Nebraska Pork Producers,  
Nebraska Dairy  
Robinson Meadowbrook  
Lincoln Independent Association  
Nebraska Bankers Association, National Federation of  
Independent Business  
Self

**Opponents:**

Dave Welsch  
  
Liz Standish  
Terry Jessen  
John Schwartz  
Jack Moles  
Marque Snow  
Randy Gilson  
Jason Buckingham  
Jeff Schneider  
Jason Hayes

**Representing:**

Milford Public Schools, Nebraska Association of School  
Boards  
Lincoln Public Schools  
Self  
STANCE, NCSA, Norris Public Schools  
Nebraska Rural Community Schools Association  
Omaha Public Schools  
STANCE, Blair Community Schools  
Ralston Public Schools  
Hastings Public Schools  
Nebraska State Education Association

Brian Rottinghaus  
Jordan Rasmussen  
Connie Knoche  
Kyle Fairbairn  
Joey Adler  
Ann Hunter-Pirtle

Pawnee City Public Schools  
Center for Rural Affairs  
OpenSky Policy Institute  
GNSA  
Holland Children's Movement  
Stand for Schools

**Neutral:**

Craig Bolz  
Merlyn Nielsen  
Art Nietfeld  
Bryce Wilson  
Jill Woodward  
John Hansen

**Representing:**

Self  
Fair Nebraska  
Self  
Nebraska Department of Education  
Self  
Nebraska Farmers Union

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**Summary of purpose and/or changes:**

LB 974 is the Revenue Committee's Property Tax Relief Proposal. The purpose of LB974 is to reduce the property tax bills of Nebraska's farmers, ranchers, homeowners, and commercial property owners by reducing the reliance on property taxes to fund public K-12 education.

The major points of LB974 include reducing the taxable valuation used by school districts to generate property tax dollars and making changes to the Tax Equity and Educational Opportunities Support Act (TEEOSA) to provide additional state funds to public K-12 school districts. These points are listed below. A section-by-section summary of the bill is printed at the end of this Summary.

- The reduction in valuation applies to valuation used to school district taxing purposes only. The tables printed below show the percentage of taxable value, the adjusted value percentage used for TEEOSA Aid and the acceptable ranges for taxing purposes.

Residential, Commercial/Industrial & Centrally Assessed Currently 100%

Tax Year	Taxable Value %	Adjusted Value %	Acceptable Range
2020	95	91	87 to 95
2021	90	86	82 to 90
2022 & thereafter	85	81	77 to 85

Agricultural/Horticultural and Special Valuation Currently at 75%

Tax Year	Taxable Value %	Adjusted Value %	Acceptable Range
2020	65	62	59 to 65
2021 & thereafter	55	52	49 to 55

- Statutory maximum levy of \$1.05 (general fund and special building fund) per \$100 of taxable valuation stays in place through 2023-24.

-The ability to have an election to override the levy remains in place.

- There is a new levy exclusion for school boards to levy up to 75% of difference between the January estimate of TEEOSA Aid and the certification of TEEOSA. (Release valve)

-Requires a supermajority vote of elected board (2/3 of elected board)

-The release valve is available if the State changes formula to match revenues.

-The base limitation (basic allowable growth rate or BAGR) for school districts beginning in 2020-21 and thereafter is the

inflation rate (CPI-U).

- For school fiscal year 2023-24 and thereafter, the local formula contribution shall be the lesser of the local effort rate yield or the inflation rate yield.
- Foundation aid replaces allocated income tax funds.
  - A Basic Funding Aid component is added to Foundation Aid.
- The averaging adjustment is repealed with the 2021-22 certification of TEEOSA aid.
- The calculation of net option funding is changed beginning in 2021-22.
  - The amount of net option funding will be based on statewide average general fund property tax per formula student.
- The certification date for 2020-21 TEEOSA Aid and Budget Authority is changed from March 1, 2020 to May 1, 2020.
  - The date for certification reverts back to March 1 after the 2020-21 certification.
- Unused budget authority is reset to zero for the 2020-21 school fiscal year.
- The special building fund levy is reduced to 6 cents per \$100 of taxable valuation.
  - A levy of 14 cents per \$100 of taxable valuation may be approved by the vote of the people.
- School boards may not build or lease-purchase buildings or additions without a vote of the people.
- Transition Aid is available for school fiscal years 2020-21, 2021-22 and 2022-23.
  - The amount of Transition Aid will be appropriated by the Legislature.
- School districts will qualify for Transition Aid if:
  - The school district has a combined general fund levy and special building fund levy of \$1.05
  - The current school fiscal year's total general fund budget of disbursements and transfers is more than 1% less than the prior year's total general fund budget of disbursements and transfers.
- Qualifying school districts will receive 100% of the variance as Transition Aid in 2020-21, prorated by the amount appropriated by the Legislature.
  - 75% of the variance will be Transition Aid in 2021-22, prorated by the amount appropriated by the Legislature.
- 50% of the variance will be Transition Aid in 2022-23, prorated by the amount appropriated by the Legislature.

LB974 contains the Emergency Clause.

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**Explanation of amendments:**

The Personal Property Tax Relief Act is repealed beginning with tax year 2020.

The taxable valuation for residential, commercial/industrial & centrally assessed valuation for school district and multiple-district school systems is reduced over a 3 year period by the following percentages:

- o 2020 to 95% of actual value
- o 2021 to 91% of actual value
- o 2022 and thereafter to 87% of actual value

The taxable valuation for agricultural, horticultural and special valuation for school district and multiple-district school systems is reduced over a 3 year period by the following percentages:

- o 2020 to 65% of actual value

- o 2021 to 60% of actual value
- o 2022 and thereafter to 55% of actual value

Taxes levied by school districts and multiple-district school systems means property taxes levied by any school district or multiple-district school system on real or personal property.

Changes the valuation for historically significant real property for the four years after the expiration of the 8-year historic preservation certification of rehabilitation to be assessed value rather than actual value.

The statutory maximum tax rate for school districts through school fiscal year 2022-23 is \$1.05 per \$100 of taxable valuation.

Beginning with school fiscal year 2023-24, each school district will have its own statutory maximum levy. The statutory maximum levy will be 5 cents per \$100 of taxable valuation plus the local effort rate of \$1.00 or the calculated local formula contribution.

A new levy exclusion is added to allow a school board to levy up to 100% of the positive difference between the January estimate of State Aid and the certification of State Aid. The levy exclusion will begin for 2021-22 and thereafter and will require a supermajority vote of the elected board to access the levy exclusion.

A school district must be at or above the statutory maximum levy. The levy exclusion may only be accessed if the changes in State Aid are due to changes caused by legislative enactments.

The date for the special building fund levy exclusion is changed to be for any project commenced prior to the effective date of this Act. The exclusion is limited to the amount that would be generated by the 2019-20 special building fund levy rate.

School districts that have passed a levy override election prior to the effective date of this act will have access to a levy exclusion for the 5-year period of their levy override. The amount of the exclusion will be an amount equal to the loss of revenue due to a statutory change in school district property valuations in 77-201 that occurred after the passage of a levy override election.

The base limitation (basic allowable growth rate or BAGR) for school districts beginning in 2020-21 and thereafter is the inflation rate (CPI-U).

The acceptable ranges for agricultural, horticultural, and special valuation will be reduced over the 3-year period to:

- o 2020 to 59% to 65%
- o 2021 to 54% to 60%
- o 2022 and thereafter to 49 to 55%

The acceptable ranges for residential, commercial & industrial, and centrally assessed valuation will be reduced over the 3-year period to:

- o 2020 to 87% to 95%
- o 2021 to 83% to 91%
- o 2022 and thereafter to 79% to 87%

Acceptable ranges are the percentage of variation from a standard for valuation as measured by an established indicator of central tendency of assessment.

The definitions section of the Tax Equity and Educational Opportunities Support Act (TEEOSA), section 79-1003, are amended to:

- Repeal obsolete language from adjusted general fund operating expenditures.
- Add new language to adjusted valuation to reference the local effort rate (LER) or the local formula contribution beginning in 2023-24.
- Sunset the allocated income tax funds with the 2019-20 certification of TEEOSA Aid.
- Adds a definition for cost index to be the CPI-U, not seasonally adjusted, released in October of each year.
- Adjusts general fund operating expenditures (GFOE) beginning in 2021-22 and thereafter to indicate it will not include receipts from the levy exclusion for additional TEEOSA Aid that is accessed by a supermajority vote of the board of education. Harmonizes the language referencing the receipts from levy override (special election, vote of people) with new levy limit.
- The inflation rate is a new definition that is the rate certified by the Tax Commissioner for each school fiscal year.
- The local formula contribution is a new definition. The local formula contribution is a calculation for determining the local yield that will be included in formula resources.
- Adds a new definition for the local formula contribution inflation rate. The local formula contribution inflation rate certified by the Tax Commissioner.

The allocated income tax component of TEEOSA Aid is repealed with the 2019-20 certification of TEEOSA Aid.

Foundation Aid is a new component of TEEOSA Aid that will replace allocated income tax. Foundation Aid is added to local system formula resources for school fiscal year 2020-21 and each year thereafter.

Foundation Aid for the 2020-21 certification of TEEOSA Aid will be calculated based on a school district's fall membership count and 5% of the net income tax collections, net corporate tax collections and the net state sales use tax collections for calendar year 2018 divided by the statewide fall membership count.

Foundation Aid for the 2021-22 certification of TEEOSA Aid will be calculated based on a school district's fall membership count and 10% of the net income tax collections, net corporate tax collections and the net state sales and use tax collections for the most recently completed calendar year divided by the statewide fall membership count.

Foundation Aid for the 2022-23 certification of TEEOSA Aid and thereafter will be calculated based on a school district's fall membership count and 15% of the net income tax collections, net corporate tax collections and the net state sales and use tax collections for the most recently completed calendar year divided by the statewide fall membership count.

The fall membership count of students will be replaced with the average daily membership count of students for the final recalculation of TEEOSA Aid in all school fiscal years.

If the calculation of foundation aid is not equal to or great than 15% of the basic funding calculated for the system, foundation aid shall be increased to equal 15% off such basic funding.

For the calculation of Foundation Aid, the income tax collections, corporate income tax collections, and sales and use tax collections will be based on a calendar year. The Tax Commissioner shall certify these amounts to the Department of Education on or before April 15, 2020 for the calculation of aid for school fiscal year 2020-21 and on or before November 1 for each year thereafter.

The last school fiscal year for the averaging adjustment component of TEEOSA Aid is 2020-21.

The calculation of net option funding for school fiscal years 2019-20 and 2020-21 will be calculated using the net number of option students multiplied by the statewide average basic funding per formula student.

For school fiscal year 2021-22 and thereafter net option funding will be calculated using the net number of option students multiplied by the statewide average general fund property taxes per formula student.

The calculation of statewide average general fund property taxes per formula student is the sum of the receipts of the general fund property tax levies, the Property Tax Credit Cash Fund, homestead exemption reimbursement and

personal property tax exemption reimbursements divided by the statewide formula students. The receipts are from the most recently available complete data year and the students are from the school fiscal year for which aid is being calculated.

On or before April 15, 2020, on or before November 15, 2020, and on or before November 15 of each year thereafter, the Tax Commissioner calculates and certifies the inflation rate to the Department of Education. Beginning in 2022, the Tax Commissioner shall also calculate and certify the local formula contribution inflation rate for the immediately following school fiscal year.

The inflation rate is calculated by subtracting the cost index immediately preceding the most recent cost index from the most recent cost index and dividing the difference by the cost index immediately preceding the most recent cost index. The most recent cost index is defined as the most recent cost index available at the time of certification.

The inflation rate shall never be greater than 2.5% or less than 0%.

The local formula contribution inflation rate shall equal the inflation rate and will never be less than 0%.

For school fiscal year prior to 2023-24, local system formula resources includes the yield from the local effort rate (LER). Local effort rate yield is the LER of \$1.00 per \$100 of adjusted valuation.

For school fiscal year 2023-24 and thereafter, local system formula resources include the local formula contribution. For school fiscal year 2023-24 and thereafter, the local formula contribution shall be the lesser of the local effort rate yield or the inflation rate yield.

The inflation rate yield is the sum of the local formula contribution for the school fiscal year immediately preceding the school fiscal year for which aid is being calculated adjusted by the local formula contribution inflation rate plus the local system's adjusted valuation for the total real property growth value multiplied by a local effort rate of \$1.00 per \$100 of adjusted valuation.

Beginning in 2022, the county assessor will certify to the Property Tax Administrator the total taxable value by school district and the total real property growth value by school district.

Beginning in 2022, the Property Tax Administrator shall compute and certify to the Department of Education the adjusted valuation for each class of property and the total real property growth value in each school district.

The adjusted valuation percentages for TEEOSA Aid purposes for residential, commercial & industrial, and centrally assessed valuation are:

- o 2020-21 to 91%
- o 2021-22 to 87%
- o 2022-23 & thereafter to 83%

The adjusted valuation percentages for TEEOSA Aid purposes for agricultural, horticultural, and special valuation are:

- o 2020-21 to 62%
- o 2021-22 to 57%
- o 2023-24 and thereafter to 52%

The certification date for 2020-21 TEEOSA Aid and each year thereafter is harmonized with LB880E (2020 Session) and moved from March 1, 2020 to May 1, 2020.

On or before May 1, 2020 and on or before March 1, of each year thereafter, for the purpose of calculating the levy exclusion pursuant to section 77-3442(2)(d)(vii), the department shall provide an estimate of aid without any short-term

adjustment by the Legislature.

Such estimate shall equal the amount that would have been certified pursuant to this section for the immediately following school fiscal year using the inflation rate certified by the Tax Commissioner without any short-term adjustments and all other components of TEEOSA as such act existed on May 1, 2020.

Short-term adjustment is defined to mean a change passed by the Legislature with a defined period of applicability.

Any certification of TEEOSA Aid, budget authority or allowable reserve percentage for 2020-21 pursuant to the date of this Act is null and void.

The certification date for 2020-21 budget authority and 2020-21 applicable allowable reserve percentage is harmonized with LB880E (2020 Session) and moved from March 1, 2020 to May 1, 2020.

For 2020-21, budget authority will be the lesser of the following calculations:

- The greater of the prior school fiscal year's general fund budget of expenditures minus exclusions grown by the basic allowable growth rate (BAGR), or the prior school fiscal year's general fund budget of expenditures minus exclusions grown by any student growth adjustment; or 110% of formula need for the school fiscal year for which budget authority is calculated minus special education budget of expenditures.

- Or, the greater of the 2018-19 general fund budget of expenditures minus 2018-19 exclusions grown by the basic allowable growth rate (BAGR) for 2020-21; the 2019-20 general fund budget of expenditures minus 2019-20 exclusions, increased by the basic allowable growth rate for 2019-20 grown by any student growth adjustment calculated for 2020-21; or 110% of formula need for 2020-21 minus 2018-19 special education budget of expenditures.

The basic allowable growth rate is to be used for school fiscal year 2019-20 will be 2%. The basic allowable growth rate for school fiscal year 2020-21 will be the base limitation established under section 77-3446.

Beginning with school fiscal year 2020-21, unused budget authority shall not include any unused budget authority from prior school fiscal years.

Harmonizes the special building fund tax levy for a Class V school district with the statutory reference for all classes of school districts.

A board of education may increase the special building fund levy to 14 cents per \$100 of taxable value with a majority vote of the people. The increased levy shall not exceed a term of 10 years.

Prior to the effective date of this Act, a school board may levy a maximum of 14 cents per \$100 of taxable value in the special building fund.

On and after the effective date of this Act, the maximum levy in the special building fund shall be 6 cents per \$100 of taxable valuation. The special building fund tax is part of the statutory maximum levy limit.

On and after the effective date of this Act, a school board may only erect, purchase, or enter into a lease-purchase agreement for a new school building or an addition to a school building after a vote of the people. The maximum tax rate is 14 cents per \$100 of taxable valuation. The levy shall be within the statutory maximum levy limit.

The school board or board of education of any school district, or any joint public agency that has been delegated the authority to tax, may continue an annual tax established prior to the effective date of this Act through school fiscal year 2028-29 for any lease-purchase project commenced prior to the effective date of this Act.

The annual tax shall not exceed the amount needed to annually fund such lease-purchase project through school fiscal year 2028-29. The proceeds of any such annual tax shall only be used for the lease-purchase project for which the tax

was levied. Commenced is defined to mean any action taken by the school board on the record which commits the board to expend district funds in planning, constructing, or carrying out the lease-purchase project.

Any tax authorized under this subsection may exceed fourteen cents on each one hundred dollars of taxable value when combined with all other taxes imposed pursuant to this section.

Transition Aid will be provided to school districts that have combined general fund and special building fund levies of \$1.05 or greater and has a percent change in school district revenue that is greater than 0% for school fiscal year 2020-21, 1% for school fiscal year 2021-22, and 2.5% for 2022-23. The Department of Education will calculate, certify and distribute Transition Aid.

Percent change in school district revenue is defined as the change in school district revenue for a given school fiscal year divided by the school district revenue for the school fiscal year immediately preceding the given school fiscal year.

School district revenue means the sum of the calculated property tax request and the state aid for a single school fiscal year.

Calculated property tax request is defined as an amount equal to the taxable valuation of property subject to the general fund levy of the school district for the school fiscal year multiplied by \$1.05 per \$100 of taxable value.

The change in school district revenue means any positive difference resulting from subtracting the school district revenue for a given school fiscal year from the school district revenue for the school fiscal year immediately preceding the given school fiscal year.

State aid is defined as the amount of aid calculated and certified for the school fiscal year pursuant to TEEOSA without any adjusted pursuant to section 79-1065.

Transition Aid for 2020-21 will equal 100% of the change in school district revenue for school district revenue for school fiscal year 2020-21.

Transition aid for 2021-22 will equal 75% of the difference of the change in school district revenue for school fiscal year 2021-22 minus 1% of the school district revenue for school fiscal year 2020-21.

Transition Aid for 2022-23 will equal 50% of the difference of the change in school district revenue for school fiscal year 2022-23 minus 2.5% of the school district revenue for school fiscal year 2021-22.

Transition Aid will be paid in 10 equal payments beginning on the last business day of September through the last business day in June. If Transition Aid is less than \$10,000, Transition Aid shall be paid in a lump sum on the last business day in September.

The Property Tax Transition Aid Cash Fund is created to be used exclusively for the disbursement of Transition Aid.

The bill has the Emergency Clause.

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Lou Ann Linehan, Chairperson