

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2024-25</b>		<b>FY 2025-26</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$1,393,870	(\$459,835,000)	\$903,200	(\$210,281,000)
CASH FUNDS		\$1,668,185,000	\$1,797,796,390	\$1,803,220,000
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$1,393,870</b>	<b>\$1,208,350,000</b>	<b>\$1,798,699,590</b>	<b>\$1,592,939,000</b>

**Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.**

LB 1 would establish the Property Tax Growth Limitation Act.

Under the Act, political subdivisions would be counties, cities, or villages.

Except as otherwise provided in the Act, for fiscal years beginning on or after July 1, 2025, a political subdivision’s property tax request for any year could not exceed its property tax request authority. The preliminary property tax request authority for each political subdivision would be the amount of property taxes levied by the county board of equalization pursuant to section 77-1601 for such political subdivision in the prior fiscal year. In addition to the preliminary property tax request authority, the political subdivision’s property tax request authority could be increased in multiple ways as detailed in the bill. One method for a political subdivision to increase its property tax request authority under the Act would be through approval of a majority of legal voters voting on the issue at an election.

A political subdivision could choose not to increase its total property taxes levied by the full amount of the property tax request authority allowed in a particular year. In such cases, the political subdivision could carry forward to future budget years the amount of unused property tax request authority, but accumulation of unused property tax request authority could not exceed an aggregate of 5% of the total property tax request authority from the prior year.

The Auditor of Public Accounts would need to prepare forms to be used by political subdivisions for the purpose of calculating property tax request authority and unused property tax request authority. Each political subdivision would calculate such amounts and submit the forms to the auditor on or before September 30 of each year. If a political subdivision fails to submit such forms to the auditor or if the auditor determines from such forms that a political subdivision is not complying with the limits provided in the Act, the auditor would notify the political subdivision and the State Treasurer of the noncompliance. The State Treasurer would then suspend distribution of state aid allocated to the political subdivision until the political subdivision complies. The funds would be held for six months. If the political subdivision complies within the six-month period, it would receive the suspended funds. If the political subdivision fails to comply within the six-month period, the suspended funds would be forfeited and would be redistributed to other recipients of the state aid or, in the case of homestead exemption reimbursement, returned to the General Fund.

The auditor could adopt and promulgate rules and regulations to carry out the Act.

The bill would establish the School District Property Tax Relief Act.

The Act would apply to tax year 2025 and each tax year after. For tax year 2025, the total amount of relief granted would be \$2,032,796,390. For tax year 2026, the total amount of relief granted would be \$2,353,884,370. For tax year 2027, and each tax year after, the total amount of relief granted would be \$2,724,227,982. The relief would be in the form of property tax credits which appear on property tax statements. Property tax credits granted would be credited against the amount of property taxes owed to school districts.

To determine the amount of the property tax credit for each parcel, the county treasurer would multiply the amount disbursed to the county by the ratio of the real property valuation of the parcel to the total real property valuation in the county. The amount disbursed to each county would be equal to the total amount available for disbursement for the tax year multiplied by the ratio of the real property valuation in the county to the real property valuation in the state. The disbursements to the counties would occur in two equal payments, the first on or before January 31 and the second on or before April 1. The county treasurer would disburse amounts received to the school districts in the county. The amount disbursed to each school district would be equal to the amount available for

disbursement multiplied by a ratio, the numerator of which is the total real property valuation of the taxable property in the county that is located within such school district and the denominator of which is the total real property valuation of all taxable property in the county.

The Education Future Fund would be used for purposes of making the disbursement to counties.

If the real property owner qualifies for a homestead exemption, the owner would also be qualified for this property tax credit to the extent of any remaining liability after calculation of the homestead exemption. If the property tax credit results in a property tax liability on the homestead that is less than zero, the amount of the credit which cannot be used by the taxpayer would be returned to the Property Tax Administrator by July 1 of the year the amount disbursed to the county was disbursed. The Property Tax Administrator would immediately credit any funds returned to the Education Future Fund.

This bill would establish the Advertising Services Tax Act.

A tax would be imposed for those doing business in Nebraska whose combined gross advertising revenue is greater than \$1 billion. The rate of the tax would be 7.5% on the assessable base. The tax collected would be remitted to the State Treasurer for credit to the Education Future Fund. The Tax Commissioner could adopt and promulgate rules and regulations necessary to implement, administer, and enforce the Act.

The bill would change the tax from 2% to 5% of the gross proceeds for any county, city, or village which conducts a lottery. The tax would be credited as follows:

- 60% of the tax would be credited to the Education Future Fund; and
- 40% of the tax would be credited to the Charitable Gaming Operations Fund.

The bill would change the tax imposed on a manufacturer or wholesaler \$3.75 to \$14.50 per gallon on alcohol and spirits manufactured and sold by such manufacturer or shipped for sale in this state by such wholesaler in the course of such business. 75% of this gallonage tax revenue would be credited to the Education Future Fund and the remainder would be credited to the General Fund.

Under the bill, for tax year 2025 and each tax year after, agricultural machinery and equipment and manufacturing machinery and equipment would receive an exemption from the personal property tax. A change in the taxable base for schools due to the exemption of property could have an impact on state aid under TEEOSA, but any such amount is indeterminate. The property tax exemption could result for subdivisions in an increased levy rate, a decrease in taxes collected, an inability to fulfill State and Federal unfunded mandates imposed, a decrease in the ability to fund programs and services, and/or a combination of the listed scenarios.

The bill would change the tax on cigarettes to \$1.64 from the current \$0.64 per package. This \$1.00 increase would be placed in the Education Future Fund.

The bill would create new sales tax rates for multiple categories of items and those new rates are the following:

- Consumable hemp products at 30%
- Agricultural machinery and equipment purchased for use in commercial agriculture and manufacturing machinery and equipment and installation, repair, and maintenance services performed on or with respect to manufacturing machinery and equipment at 2% (exempt from any sales and use tax imposed pursuant to the Local Option Revenue Act)
- Real property maintenance and repair services performed by carpentry contractors or electricians at 4% (exempt from any sales and use tax imposed pursuant to the Local Option Revenue Act)

The bill also would remove sales tax exemptions for the following:

- Postage charges on direct mail
- Conference bridging services
- Interstate telephone and telegraph services
- Gross income received from the furnishing of electricity service to a customer-generator
- Gross income received by a political subdivision of the state, and electric cooperative, or an electric membership association for the lease or use of, or by a contractor for the construction of or services provided on, electric generation, transmission, distribution, or street lighting structures or facilities owned by a political subdivision of the state, an electric cooperative, or an electric membership association
- Exemptions regarding animal specialty services
- Storage and moving services
- Tattoo and body modification services
- Nail care services
- Hair removal services
- Massage services
- Skin care services
- Hair care services
- Cleaning of clothing
- Local, fixed-route passenger transportation by road or transit rail
- Long-distance passenger transportation by road, except fixed-route passenger transportation
- Local taxi service
- Local passenger transportation by chartered road vehicles, including limousines and similar luxury vehicles

- Sightseeing services
- Legal services
- Accounting services
- Services of real estate agents and real estate appraisers
- Investment advice
- Travel agency services
- Tour operator services
- Real property maintenance and repair services, including the services of painting and wall covering contractors, poured concrete foundation and structure contractors, framing contractors, roofing contractors, siding contractors, electricians, plumbing, heating, and air conditioning contractors, drywall and insulation contractors, flooring contractors, and carpentry contractors
- Motor vehicle repair and maintenance services, including body repair, brake repair, electrical system repair, muffler and exhaust system repair, air conditioning and heating system repair, power train repair, scheduled preventative maintenance, wheel and alignment services, and repair of recreational motor vehicles
- Weight loss services
- Bail bonding services
- Telefloral delivery services
- Seismograph and geophysical services
- Water well drilling
- Loan broker services
- Real estate management services
- Real estate title and abstracting services
- Reporting of financial information for use by investors
- Dating services
- Services of fishing and hunting guides
- Golf lessons, dance lessons, or tennis lessons
- Swimming pool cleaning and maintenance services
- Tax return preparation
- Debt collection services
- Gross income received for providing credit report information
- Services of employment agencies and temporary help agencies
- Interior design and decorating services
- Lobbying services
- Marketing and telemarketing services
- Service of process
- Public relations services
- Secretarial and court reporting services
- Telephone answering services
- Services of testing laboratories, excluding any such service provided as part of medical treatment
- Information services
- Data processing services
- Mainframe computer access and processing services
- Gross income received for providing access to parking lots and parking garages
- Land surveying services
- Providing chartered flights
- Labor for repair or maintenance services performed with regard to railroad rolling stock, motor vehicles, watercraft, or aircraft engaged as common or contract carriers
- Fees and admissions charged for participants in any activity provided by a 501(c)(3) nonprofit organization, which organization conducts statewide sport events with multiple sports for both adults and youth
- Fees and admission charged for participants in any activity provided by a 501(c)(3) nonprofit organization, which organization is affiliated with a national organization, primarily dedicated to youth development and healthy living, and offers sports instruction and sports leagues or sports events in multiple sports
- Candy and soft drinks
- Food provided by fraternities, sororities, cooperative student societies, and summer camps that charge a single amount to attend
- Mechanical amusement devices
- Manufacturing machinery and equipment and installation, repair, and maintenance services performed on or with respect to manufacturing machinery and equipment
- Lottery tickets purchased (Per agreements with member lotteries for each of the national games, sales tax would need to be included in the price to those games so as not to go over the mandated price-point. This would result in a reduction to the lottery beneficiary funds for the Environmental Trust Fund, various Education Funds, Nebraska State Fair Board, and Compulsive Gamblers Assistance Fund)

- Personal property containing copyrighted material if the purchaser, lessee, licensee, or renter is operating under a certificate from the Federal Communications Commission and possesses such personal property for rebroadcasting to the general public, regardless of whether the property is in the form of satellite transmissions, films, records, tapes, discs, or other media
- Molds, dies, and patterns which have been specifically designed and fabricated to the special order of the customer
- Telecommunications service between telecommunications companies, including division of revenue, settlements, or carrier access charges or Dark fiber between telecommunications companies
- Sale or rental of videotape and film rentals, satellite programming, and satellite programming service when the sales tax or the admission tax is charged under the Nebraska Revenue Act of 1967 and except as provided in section 77-2704.39
- Purchases of property as defined in subdivision (8) of section 51-702 or fine art by any museum as defined in subdivision (6) of section 51-702
- Personal property for use in a C-BED project or community-based energy development project
- Mineral oil to be applied to grain as a dust suppressant
- Biochips used for the purposes of conducting genotyping or the analysis of gene expression, protein expression, genomic sequencing, or protein profiling of plants, animals, or nonhuman laboratory research model organisms
- Tangible personal property and services acquired by a person operating a data center located in this state that are assembled, engineered, processed, fabricated, manufactured into, attached to, or incorporated into other tangible personal property for the purpose of subsequent use at a physical location outside this state. Such exemption extends to keeping, retaining, or exercising any right or power over such tangible personal property in this state for the purpose of subsequently transporting it outside this state for use thereafter outside this state
- Amounts charged to participate in a youth sports event, youth sports league, or youth competitive educational activity by political subdivisions or 501(c)(3) organizations
- Purchases by any historic automobile museum of items which are displayed or held for display by such historic automobile museum and which are reasonably related to the general purpose of such historic automobile museum
- Any sale of a membership in or an admission to or any purchase by a nationally accredited zoo or aquarium operated by a public agency or nonprofit corporation primarily for educational, scientific, or tourism purposes
- Purchases made by licensees of the State Racing and Gaming Commission
- Catalysts, chemicals, and materials used in the process of manufacturing ethyl alcohol and the production of coproducts
- Depreciable agricultural machinery and equipment for use in commercial agriculture or net wrap, baling wire, and twine purchased for use in commercial agriculture
- Currency or bullion

The bill would make changes so that for taxable years beginning on or after January 1, 2024, residents of Nebraska who are shareholders of a small business corporation having an election in effect under subchapter S of the Internal Revenue Code or who are members of a limited liability company would include in their Nebraska taxable income, to the extent includable in federal gross income, their proportionate share of such corporation's or limited liability company's federal income. A resident of Nebraska would include in Nebraska taxable income fair compensation for services rendered to such corporation or limited liability company. Compensation actually paid would be presumed to be fair unless it is apparent to the Tax Commissioner that such compensation is materially different from fair value for the services rendered or has been manipulated for tax avoidance purposes. The bill also would make changes to eliminate the adjustment to federal adjusted gross income, or, for a fiduciary, federal taxable income that excludes the portion of the income or loss received from the noted entities that is not derived from or connected with Nebraska sources.

The bill would add regarding the Revenue Distribution Fund to credit to the Education Future Fund an amount equal to the sum of:

- The increase in sales and use tax revenue received as a result of the changes made by the bill; and
- The increase in income tax revenue received as a result of the changes made in section 77-2734.01 and subsection 4 of section 77-2716 by the bill.

The amount to be credited would be determined annually by the Tax Commissioner.

The bill would make changes to the renewable energy tax credit in section 77-27,235 to remove language that the credit may not be claimed by a producer who received a sales tax exemption under section 77-2704.57 for the new renewable electric generation facility.

Under the bill, the tax on electronic nicotine delivery systems (ENDS) would be 30% of the purchase price paid by the first owner or the price at which the first owner who made, manufactured, or fabricated the ENDS sells the item to others. The tax would be credited as follows:

- 2/3 of the tax revenue would be credited to the Education Future Fund; and
- All other tax revenue would be credited to the General Fund.

The bill would make changes to the Property Tax Credit Act so that the minimum relief granted would be the following for each tax year:

- 2025: \$195 million
- 2026: \$180 million
- 2027: \$170 million
- 2028: \$185 million

Under the Act, the disbursement to the counties occur in two equal payments, the first on or before January 31 and the second on or before April 1. After retaining 1% of the receipts for costs, the county treasurer would allocate the remaining receipts to each taxing unit, excluding school districts, based on its share of the credits granted to all taxpayers in the taxing unit.

The bill would make changes to the Nebraska Property Tax Incentive Act. The bill would remove the definition of allowable growth percentage from the Act and sunset the school district property tax credit under the Act so it only applies to tax years before 2024.

The bill would remove language placing a limit on a transfer occurring regarding the Nebraska Transformational Project Fund before the total amount of refundable credits granted annually under the Nebraska Property Tax Incentive Act reach \$375 million.

The bill would change the intent of the Legislature in section 79-1002 to the following:

- Reevaluate how the State of Nebraska funds its 244 public school districts;
- Establish a new funding formulation under the Tax Equity and Educational Opportunities Support Act by no later than school fiscal year 2026-27;
- Change the funding formula in a way that will dramatically increase the level of funding provided by the state, thus providing a significant decrease in property taxes;
- Change the funding formula in a way that will replace school general fund levies by no later than school fiscal year 2026-27;
- Change the funding formula in a way that will retain the ability of school districts to levy property taxes for approved bonds, special building funds, and the purposes described in sections 79-10,110 and 79-10,110.02; and
- Change the funding formula in a way that will allow school districts to levy property taxes if the state does not fully replace their general fund levies.

The bill would make changes to provisions connected to the Education Future Fund. The bill would allow the Fund to be used to provide property tax relief under the School District Property Tax Relief Act. Also, the State Treasurer would now transfer \$1.285 billion from the General Fund to the Education Future Fund in FY25. The State Treasurer would transfer \$1.360 billion from the General Fund to the Education Future Fund in FY 26. It would be the intent of the Legislature that \$1.603 billion would be transferred from the General Fund to the Education Future Fund in FY27 and each fiscal year after.

The bill would change the tax on the net operating revenue for each cash device from 5% to 20%. The distribution of this tax would change, as well, and would be as follows:

- 75% to the Education Future Fund
- The remaining 25% would be distributed as follows:
  - 20% to the Charitable Gaming Operations Fund
  - 2.5% to the Compulsive Gamblers Assistance Fund
  - 2.5% to the General Fund
  - 10% to the Nebraska Tourism Commission Promotional Cash Fund
  - 40% to the Property Tax Credit Cash Fund
  - 25% to the county treasurer of the county in which the cash device is located to be distributed as follows:
    - If the cash device is located completely within an unincorporated area of a county, the 25% would be distributed to the county in which the cash device is located, or
    - If the cash device is located within the limits of a city or village in such county, one-half of the 25% would be distributed to such county and one-half of the 25% would be distributed to the city or village in which such cash device is located.

The bill would become operative on October 1, 2024 and contains the emergency clause.

The DOR estimated the increase to the Education Future Fund. We agree with their estimates, except for the refundable income tax credit repeal and changes to the amount of relief regarding the Property Tax Credit Act being credited to the Education Future Fund. These fiscal impacts have been added to the second table from the DOR for General Fund increases instead of being credited to the Education Future Fund. Thus, we still agree with the total fiscal impact in the second table presented by the DOR.

The estimates for increases to the Education Future Fund are below:

	<i>FY 24-25</i>	<i>FY 25-26</i>	<i>FY 26-27</i>
New Revenue from Sales Tax	\$ 417,429,000	\$ 648,058,000	\$ 670,736,000
Non-Nebraska S Corporation and LLC Income/Loss Exclusion	\$ 59,751,000	\$ 38,841,000	\$ 35,716,000
Increase in Cigarette Tax	\$ 37,519,000	\$ 54,370,000	\$ 52,589,000
Increase in Spirit Tax	\$ 26,915,000	\$ 40,516,000	\$ 40,661,000
Advertising Services Tax Act	\$ 33,756,000	\$ 53,828,000	\$ 58,066,000
Consumable Hemp	\$ 3,924,000	\$ 6,180,000	\$ 6,489,000
ENDS	\$ 16,045,000	\$ 24,877,000	\$ 25,623,000
Cash Devices	\$ 5,202,000	\$ 8,036,000	\$ 8,277,000
Keno Tax	\$ 11,250,000	\$ 15,525,000	\$ 16,068,000
<b>Total</b>	<b>\$ 611,791,000</b>	<b>\$890,231,000</b>	<b>\$914,225,000</b>

The summary with effects to other funds is below:

	FY 24-25	FY 25-26	FY 26-27
General Fund	\$ 575,165,000	\$ 899,719,000	\$ 954,640,000
Education Future Fund	\$ 611,791,000	\$ 890,231,000	\$ 914,225,000
Local Option Sales Tax (1.5%)	\$ 89,681,000	\$ 159,416,000	\$ 165,480,000
Highway Trust Fund	\$ 21,394,000	\$ 37,989,000	\$ 39,391,000
Highway Allocation Fund	\$ 3,773,000	\$ 6,655,000	\$ 6,951,000
<b>Total</b>	<b>\$ 1,301,804,000</b>	<b>\$1,994,010,000</b>	<b>\$2,080,687,000</b>

To note, the sales tax changes under this bill increase revenue to the Highway Trust Fund and the Highway Allocation Fund, which is distributed to cities and counties. The DOR also estimates increases in tax revenue to local governments based upon a 1.5% sales and use tax rate.

Under the bill, the State Treasurer would now transfer \$1.285 billion from the General Fund to the Education Future Fund in FY25. The State Treasurer would transfer \$1.360 billion from the General Fund to the Education Future Fund in FY 26. It would be the intent of the Legislature that \$1.603 billion would be transferred from the General Fund to the Education Future Fund in FY27 and each fiscal year after. Thus, this further affects the fiscal impact of the bill as currently this transfer is \$250 million per fiscal year.

The DOR estimates a one-time cost of \$420,670 to be paid to the Office of the Chief Information Officer for programming and web development changes as a result of this bill. The DOR also estimates a need to hire 4.5 Revenue Operation Clerk II, 2.0 FTE Revenue Agents, 0.5 FTE Information Technology Business System Analyst, 2.0 Revenue Auditors III, 1.0 FTE Tax Specialist Senior, and 4.0 FTE Fiscal Compliance Analyst for the implementation of LB 1. There is no basis to disagree with these estimates. However, the DOR does not assume any salary or benefits increases for FY25-26 and FY26-27 for the additional personnel needed pursuant to this bill's provisions. While the actual salary and health insurance increases for FY25-26 and thereafter are not yet determined, it is important to note that any additional personnel in FY24-25 will have ongoing rising costs associated with salary and health insurance increases, which are normally addressed in the biennial budget process for all bargaining and non-bargaining employees.

The Nebraska Association of County Officials (NACO) estimates costs connected to software modification and training that would be needed. Also, NACO notes that the School District Property Tax Relief Act adds responsibilities for counties without a mechanism to fund counties for their work and expenses associated with software adjustments and other requirements. NACO estimates over a \$15 million reduction for administrative work and resources and notes that without commissions these expenses would possibly result in a shift to property taxes, cuts to services, inability to fulfill state and federal mandates or a combination of these options.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 1	AM:	AGENCY/POLT. SUB: Auditor of Public Accounts	
REVIEWED BY: Neil Sullivan		DATE: 7/29/2024	PHONE: (402) 471-4179
COMMENTS: The Auditor of Public Accounts assessment of minimal fiscal impact from LB 1 appears reasonable.			

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE			
LB: 1	AM:	AGENCY/POLT. SUB: Nebraska Association of County Officials	
REVIEWED BY: Neil Sullivan		DATE: 7/29/2024	PHONE: (402) 471-4179
COMMENTS: The Nebraska Association of County Officials assessment of fiscal impact from LB 1 appears to be reasonable, except that the impact could be manageable.			

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**2024**

**LB<sup>(1)</sup> 1**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Nebraska Auditor of Public Accounts

Prepared by: <sup>(3)</sup> Craig Kubicek Date Prepared: <sup>(4)</sup> 7/29/24 Phone: <sup>(5)</sup> 402-326-3063

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2024-25</u>		<u>FY 2025-26</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$0		\$0	
CASH FUNDS	\$0		\$0	
FEDERAL FUNDS	\$0		\$0	
OTHER FUNDS	\$0		\$0	
<b>TOTAL FUNDS</b>	<b>\$0</b>		<b>\$0</b>	

**Explanation of Estimate:**

This would require staff time to update the budget forms and monitoring; however, we would plan to cover under current staffing levels.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2024-25</u>	<u>2025-26</u>
	<u>24-25</u>	<u>25-26</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
<b>TOTAL.....</b>				

Please complete ALL (5) blanks in the first three lines.

**2024**

**LB<sup>(1)</sup> 1**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Lancaster County (Budget & Fiscal)

Prepared by: <sup>(3)</sup> Dennis Meyer Date Prepared: <sup>(4)</sup> 7-26-24 Phone: <sup>(5)</sup> 402-441-6869

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2024-25</u>		<u>FY 2025-26</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

**Explanation of Estimate:**

The fiscal impact of this bill on Lancaster County isn't easily determined. The bill has changes due to the introduction of the Property Tax Growth Limitation Act as well as changes to the lid on restricted funds and the Property Tax Request Act. The greater of zero or the consumer price index could have and will have an effect depending on the fiscal year. The lid on restricted funds always had a 2.5% growth rate plus allowable growth plus an additional 1% voted on by the county board. The new limit could reduce revenue depending on the calculation each year.

Property tax relief provided to school districts will lower property tax commissions received by the County Treasurer. If property tax is bought down by the state, the loss of revenue could be over \$3 million.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2024-25</u> <u>EXPENDITURES</u>	<u>2025-26</u> <u>EXPENDITURES</u>
	<u>24-25</u>	<u>25-26</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____



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**2024**

**LB<sup>(1)</sup> 1**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Liquor Control Commission

Prepared by: <sup>(3)</sup> Mark W. Davis Jr Date Prepared: <sup>(4)</sup> 7/29/2024 Phone: <sup>(5)</sup> 402-471-4804

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2024-25</u>		<u>FY 2025-26</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	<u>0</u>	<u>-\$371,734</u>	<u>0</u>	<u>-\$550,693</u>
CASH FUNDS	<u>0</u>	<u>\$32,340,852</u>	<u>0</u>	<u>\$47,910,273</u>
FEDERAL FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	
OTHER FUNDS	<u>0</u>	<u>0</u>	<u>0</u>	
<b>TOTAL FUNDS</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	

**Explanation of Estimate:**

The Liquor Control Commission implemented a new technology solution that permits staff to modify tax rates without external programming, no expenses.

If current trends for spirit consumption continue NLCC expects that a continued decrease in spirit sales of 1.24% per year, for 24-25 gallons reported for tax of 3,003,910.51 gallons of spirits reported for sale, excluding months July through October due to the effective date, for \$43,121,135 revenue at the rate of \$14.50 per gallon, broken out into \$32,340,852 into the Education Future Fund, and \$10,780,284 into the General Fund, a decrease of revenue from the current tax rate of \$3.75 which would be \$11,152,018 for the same time period if unchanged. Fiscal year 25-26 projected gallons reported for sale are 4,450,403, for \$63,880,364 revenue, broken into \$47,910,273 for the Education Future Fund and \$15,970,091 for the general fund, a decrease of revenue for the general fund from \$16,520,784 from the current tax rate of \$3.75.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2024-25 EXPENDITURES</u>	<u>2025-26 EXPENDITURES</u>
	<u>24-25</u>	<u>25-26</u>		
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
<b>TOTAL.....</b>				

Please complete ALL (5) blanks in the first three lines.

2024

LB<sup>(1)</sup> 1 Special Session

FISCAL NOTE

State Agency OR Political Subdivision Name: <sup>(2)</sup> Nebraska Association of County Officials (NACO)

Prepared by: <sup>(3)</sup> Elaine Menzel Date Prepared: <sup>(4)</sup> 7/26/2024 Phone: <sup>(5)</sup> 402.434.5660

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2024-25		FY 2025-26	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

LB 1 would implement various tax shifts, increases and reductions. It would create the Property Tax Growth Limitation Act (the Act – sections 1-8) that would apply to counties, cities and villages. The Act would place limits on the covered political subdivisions by prohibiting a political subdivision’s property tax request from exceeding the preliminary property tax request authority (amount of property taxes levied by the county board of equalization for the political subdivision in the prior fiscal year) plus the property tax request may be increased by:

- The amount of property taxes levied in the prior year increased by the political subdivision's growth percentage, less the sum of exceptions utilized in the prior year; and
- The greater of 0% or percentage change in the consumer price index percentage. (section 3)

A county may increase its property tax request authority over the amount determined under section 3 of this act by:

- The amount of property taxes budgeted for approved bonds;
- The amount of property taxes needed to respond to an emergency declared in the preceding year, as certified to the auditor;
- The amount of unused property tax request authority determined in section 6 of this act;
- The amount of property taxes budgeted in support of (a) a service relating to an imminent and significant threat to public safety or public health that (i) was not previously provided by the political subdivision and (ii) is the subject of an agreement or a modification of an existing agreement executed after the operative date of this act, whether provided by one of the parties to the agreement or by an independent joint entity or joint public agency or (b) an interlocal agreement relating to public safety;
- The increase in property tax request authority approved by the legal voters; and
- The amount of property taxes needed to implement a 6% increase in compensation for understaffed law enforcement officer, firefighter, or corrections officer positions as outlined. (section 4)

A county may choose not to increase its total property taxes levied by the full amount of the property tax request authority allowed in a particular year. In such cases, the county may carry forward to future budget years the amount of unused property tax request authority, but accumulation of unused property tax request authority shall not exceed an aggregate of five percent of the total property tax request authority from the prior year. (section 6)

Sections 9 to 12 of LB1 would create the School District Property Tax Relief Act. The Act would apply to school year 2025 and each tax year following. Two billion thirty-two million plus dollars would be granted in stated

relief. In future years, the amount of proclaimed relief would increase. The relief would be in the form of property tax credits which appear on property tax statements. To determine the amount of property tax credit, county treasurers would be required to perform calculations. A possible increase in costs would be incurred by counties for providing software updates and additional time and supplies for implementing the requirements of the School District Property Tax Relief Act. Homestead exemptions would also be factored in the calculation of relief with counties receiving reimbursement payments by the State for property qualifying for a homestead exemption.

Additional changes made by LB 1 would be to add or eliminate several provisions within the revenue and taxation statutes, including:

- imposing taxes upon advertising services (Advertising Services Act - sections 13-17);
- eliminating the sales and use tax exemption for agricultural machinery and equipment; (sections 18, 29);
- increasing the amount of gross proceeds received from conducting a county lottery – this section would result in a fiscal decrease to counties, as a result of a requirement to submit five percent rather than two percent of the lottery proceeds received by a county. Two recent years of figures show that 18 counties collected revenue from lottery proceeds with a 2-year average total from all counties ranging from approximately \$1,300 to \$7.4 million. Two percent of these proceed equal \$493,119; 5% equals approximately \$1.2 million. The difference would result in an increased fiscal impact of \$740,000 to be paid to the state. (section 20);
- remove counties from the Budget Act beginning in FY 2025/2026 beginning on or after 7/1/2025 and related provisions (sections 21 and 22);
- removes the restricted fund provision related to the ability of counties to seek reimbursement for indigent defense from the Commission on Public Advocacy (section 24);
- increases the tax on alcohol and spirits manufactured and sold by a wholesaler from \$3.75 per gallon to \$ 14.50 per gallon with 75% to be credited to the Education Future Fund (section 25);
- eliminating references to restricted funds for counties (sections 26, 27, 38)
- exempts from personal property tax, tax year 2025 and after, agricultural machinery and manufacturing machinery and equipment (section 28);
- modify tax expenditure reporting requirements for the Department of Revenue related to exemptions (section 29);
- remove provisions relating to railroads and car lines, public service entities, air carrier; as well as reimbursement of taxes lost as a result of these exemptions. The exemption of agricultural machinery and equipment is likely to result in at least the partial exemption of personal property for centrally assessed properties, and possibly the commercial class of property. Removing the reporting of the exemption factor, as well as the mechanism for reimbursing local political subdivisions will result in narrowing the tax base and shifting those lost taxes to those remaining in the tax base
- exempt specific agricultural and manufacturing machinery from sales and use tax (Section 32)
- modify provisions related to the Property Tax Request Act (Sections 35, 36)
- require the statement of the amount of taxes due and a special notice that special assessments are due to include additional information that indicates whether the implementation of a raise due to understaffed law enforcement is necessary, as well as additional information; Such requirements will require additional software programming and costs for perhaps larger paper and calculations In 2021, counties produced 716,545 tax statements. Imposing just an additional cost of \$.02 for reproducing the statements would equate to more than an additional \$14,000 (section 37);
- increase tax on cigarettes from 64 cents to \$1.64 per package with \$1.00 to be distributed in the Education Future Fund (section 30);
- sales tax at 5.5 percent, except different rate for sales tax rate in a good life district – 2.75 %; 30% sales tax on consumable hemp products (section 32) (section 46 definition), 2 % on agricultural machinery and equipment purchased for commercial agriculture, and manufacturing, 4% on real property maintenance and repair services performed by carpentry contractors or electricians (section 42);
- list of gross receipts for providing a service would greatly be expanded in number (section 44);
- impose taxation of candy and soft drinks, as defined (section 49);
- increase the tax on an electronic nicotine delivery system from 10 % to 30 % of (i) the purchase

price of such electronic nicotine delivery system paid by the first owner or (ii) the price at which the first owner who made, manufactured, or fabricated the electronic nicotine delivery system sells the item to others (section 61);

A vast majority of provisions within LB 1 are sales tax provisions and would not fiscally impact counties. Provisions contained within the Property Tax Growth Limitation Act would apply to counties and the removal of relevant sections within the Budget Act would also apply. The fiscal note is expected to be insignificant following the modification of software and the training that would be needed related to new budget and levy provisions. Furthermore, within the School District Property Tax Relief Act, county treasurers would be required to calculate and distribute billions of dollars of relief to schools without a mechanism to fund counties for their work and expenses associated with software adjustments and other requirements. Over a \$15 million reduction for administrative work and resources related to assessment, taxation, hearings, distribution and archiving for administrative work, software, citizen engagement and other resources related to assessment, hearings, collecting, and distribution of tax dollars would be incurred. Without commissions these expenses will possibly result in a shift to property taxes, cuts to services, inability to fulfill state and federal mandates or a combination of these options.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2024-25</u>	<u>2025-26</u>
	<u>24-25</u>	<u>25-26</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....				

**State Agency Estimate**

State Agency Name: Department of Revenue				Date Due LFO:		
Approved by: James R. Kamm				Date Prepared: 07/29/2024		
				Phone: 471-5896		
	<b>FY 2024-2025</b>		<b>FY 2025-2026</b>		<b>FY 2026-2027</b>	
	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>
General Funds	\$1,393,870	\$10,030,000	\$903,200	\$15,346,000	\$903,200	\$15,624,000
Cash Funds		\$1,198,320,000		\$1,812,593,000		\$1,892,632,000
Federal Funds						
Other Funds		\$93,454,000		\$166,071,000		\$172,431,000
<b>Total Funds</b>	<b>\$1,393,870</b>	<b>\$1,301,804,000</b>	<b>\$903,200</b>	<b>\$1,994,010,000</b>	<b>\$903,200</b>	<b>\$2,080,687,000</b>

**Property Tax**

Section 1 through 8 of LB 1 is the Property Tax Growth Limitation Act. For fiscal years beginning on or after July 1, 2025, the Property Tax Growth Limitation Act curtails increases in property taxes by prohibiting a political subdivision’s property tax request from exceeding its property tax request authority (the amount a political subdivision can request pursuant to this act). Each political subdivision starts with a preliminary property tax request authority that is equal to the amount of taxes levied for that political subdivision in the prior fiscal year.

In addition to this preliminary property tax request authority, political subdivision’s property tax request authority can be increased by using the following formula:

- Amount Property Tax Request Authority can be Increased = [(Property taxes levied for the political subdivision in the prior year multiplies by the political subdivision’s growth percentage) minus total of exceptions used by the political subdivision in the prior year] multiplies by (the greater of 0 or the Consumer Price Index.)
- Growth Percentage = a political subdivision’s growth value divided by a political subdivision’s growth value.

Growth Value is defined as increases in a political subdivision’s total property valuation due to 1) improvements in the form of new construction and additions to existing buildings, 2) other improvements that increase real property value, 3) annexation, 4) use change of real property, and 5) increases in personal property over the prior year. This type of growth is usually referred to as “real growth”.

There are six exceptions to the prohibition of a political subdivision’s property tax request exceeding its property tax request authority. These exceptions include increase of property taxes for 1) approved bonds, 2) declared emergencies, 3) unused property tax request authority, 4) imminent and significant public safety threat, 5) increases in property tax request authority approved by legal voters, and 6) a 6% compensation increase understaffed law enforcement, firefighter, or correction officer positions.

**Major Objects of Expenditure**

Class Code	Classification Title	24-25	25-26	26-27	24-25	25-26	26-27
		FTE	FTE	FTE	Expenditures	Expenditures	Expenditures
S29112	Revenue Op Clerk II	4.5	4.5	4.5	\$170,000	\$170,000	\$170,000
X29222	Revenue Agent	2.0	2.0	2.0	\$86,400	\$86,400	\$86,400
A07082	Information Technology Business Systems Analyst/Coordinator	0.5	0.5	0.5	\$35,800	\$35,800	\$35,800
A21253	Revenue Auditor III	2.0	2.0	2.0	\$126,200	\$126,200	\$126,200
A29622	Revenue Tax Specialist Senior	1.0	1.0	1.0	\$71,700	\$71,700	\$71,700
A21211	Fiscal Compliance Analyst	4.0	4.0	4.0	\$189,000	\$189,000	\$189,000
Benefits.....					\$200,400	\$200,400	\$200,400
Operating Costs.....					\$420,670		
Travel.....							
Capital Outlay.....					\$70,000		
Capital Improvements.....							
<b>Total.....</b>					<b>\$1,393,870</b>	<b>\$903,200</b>	<b>\$903,200</b>

Political subdivisions will calculate their property tax request authority and unused property tax request authority and submit such amounts to the state auditor on or before September 15th starting in 2025. Failure to do so will result in state aid to the political subdivision being suspended or ultimately forfeited if not submitted by the political subdivision within 6 months of the September 15th due date.

Section 9 to 12 of LB 1 is the School District Property Tax Relief Act (SDPTRA). The SDPTRA provides property tax relief to owners of real property in the form of property tax credits against property taxes owned to school districts. These credits will appear on property tax statements.

The amount of tax credits for each tax year is as follows:

- Tax Year 2025 - \$2,032,796,309
- Tax Year 2026 - \$2,353,884,370
- Tax Year 2027 and after - \$2,724,227,982

The amount of property tax credits for each parcel will be determined by the county treasurer as follows: Parcel Property Credit Amount equals Amount of property tax credits distributed to the county multiplies by (parcel real property valuation divided by total county real property valuation).

If a real property owner qualifies for homestead exemption, then the homestead exemption is first applied against the owner's property taxes. The property tax amount will then be applied to any remaining property tax liability. If there are unused property tax credits, those amounts will be returned to the Property Tax Administrator (PTA) by July 1 in the year of distribution and credited to the Education Future Fund. The county treasurer will file a report with the PTA showing the amount of funds distributed to each school district in the county for the year the funds were return, and the unused credits returned.

The PTA will determine by September 15, starting in 2025, the amount of credits to be disbursed to each county and certify the same to the State Treasurer and each county. Disbursements will occur in two equal payments; one on or before January 31st and the second on or before April 1st.

County Property Credit Amount equals total of property tax credits available for that year multiplies by (country real property valuation divided by state real property valuation). The county treasurer will calculate the amount to be distributed to each school district in the county as follows:

- School District Distribution Amount equals Country Property Credit Amount multiplies by [total real property valuation of taxable property in the county located in the school district divided by total real property valuation of all taxable property in the county].

Disbursements to the counties will be made from the Education Future Fund.

Section 28 adds an exemption from personal property tax for agricultural machinery and manufacturing machinery and equipment beginning in tax year 2025.

Section 32 creates a one hundred percent exemption of the personal property taxes due for agricultural machinery and equipment or manufacturing machinery and equipment beginning tax year 2025.

Section 33 creates a deadline of November 30th for county assessor and county treasurers to certify to the Tax Commissioner the total tax revenue lost because of personal property tax exemptions allowed in Neb. Rev. Stat. 77-1328.

Section 63 lowers the minimum amount of relief granted under the property tax credit from:

- \$430,000,000 to \$195,000,000 for tax year 2025;
- \$445,000,000 to \$180,000,000 for tax year 2026;
- \$460,000,000 to \$170,000,000 for tax year 2027; and
- \$475,000,000 to \$185,000,000 for tax year 2028

Section 63 also excludes school district from receiving property tax credit disbursement.

### **Advertising Services Tax Act**

Section 13 through 17 of LB 1 creates a tax on the gross income or revenue from advertising services. The tax is imposed on taxpayers that are doing business in Nebraska and whose combined gross advertising revenue exceeds \$1 billion. All taxes collected will be credited to the Education Future Fund.

The tax rate is 7.5% of a person's assessable base for the reporting period. The "accessible base" is defined as the portion of gross advertising revenue that is derived from sales to customers where services are delivered within Nebraska. Gross advertising revenue is considered within Nebraska if the audience of the advertising is within Nebraska according to the IP address of the device where advertising is being viewed or, if the IP address location is unavailable, the use of another reasonable method to source the advertising revenue to Nebraska based on the location of the viewer. If the audience is based both within and outside of Nebraska based on these sourcing rules, the gross advertising revenue is apportioned between Nebraska and other states in proportion to the location of the viewers within Nebraska as compared to the other states. The Tax Commissioner may adopt and promulgate rules and regulations determining the state from which gross advertising revenue is derived.

Section 18 of LB 1 strikes the exemption from sales and use taxes for tractors permitted for sales under Neb. Rev. Stat. §§ 2-2701 through 2-2711.

### **Keno and Cash Devices**

Section 20 increase the tax on keno from 2% to 5% and 60% of the tax is transferred to the Education Future Fund and 40% to the Charitable Gaming Operations Fund.

Section 60 amends the Mechanical Amusement Device Tax Act. Specifically, it removes the following language: " ... except that payment of the tax and license fees due and owing on or before the licensing date of each year shall exempt any such mechanical amusement device from the application of the sales tax which would or could otherwise be imposed under the Nebraska Revenue Act of 1967. Nonpayment of the taxes or fees due and owing on or before the licensing date of each year shall render the exemption provided by this section inapplicable, and the particular mechanical amusement devices shall then be subject to all the provisions of the Nebraska Revenue Act of 1967, including the penalty provisions pertaining to the distributor or operator of such mechanical amusement devices."

By removing this language, it will require sales tax to be assessed on all mechanical amusement devices, including pinball machines, coin operated pool tables, arcade video games, etc.

Section 71 amends statutes related to cash devices. It increases the tax, which is scheduled to be implemented in July of 2025, from 5% to 20%. From this tax, 75% would be directed to the Education Future Fund. The remaining 25% would be split as it was laid out in LB 685 (2024), which is 20% to the Charitable Gaming operations Fund to maintain the central server, 2.5% to the Compulsive Gamblers Assistance fund, 10% to the Nebraska Tourism Commission Promotional Cash Fund, 40% to the Property Tx Credit Fund, and 25% split equally between the county and city where the device is located.

**Sales Tax Expansion, Increases Rate other Taxes, and Other Changes to Taxes.**

Section 25 of LB 1 amends § 53-160 which increases the tax imposed upon the privilege of engaging in business as a manufacturer or a wholesaler of alcohol and spirits from \$3.75 per gallon to \$14.50 per gallon manufactured and sold by a manufacturer or shipped for sale in this state by a wholesaler. Adds language stating 75% of the tax collected on alcohol and spirits is credited to the Education Future Fund.

Section 29 amends § 77-382 to remove the exemptions for the following from the tax expenditure report as they would no longer be exempt from sales tax:

- Agricultural machinery.
- Mineral oil as dust suppressant.
- Railroad rolling stock services.
- Common or contract carrier services.
- Telefloral deliveries.
- Manufacturing machinery.
- Film rentals.
- Molds and dies.
- Syndicated programming.
- Nebraska Lottery.
- Fine art purchases by a museum.
- Purchases by licensees of State Racing and Gaming Commission.
- Motor vehicle cleaning, maintenance, and repair services.
- Maintenance, painting, and repair of real property.
- Personal care services.
- Pet-related services.
- Storage and moving services.
- Other personal services.
- Tax, limousine, and other transportation services.
- Legal services.
- Accounting services.
- Other professional services.
- Other real estate services.
- Telecommunications access charges.
- Conference bridging services.

Section 39 increases the cigarette tax for packs of 20 to \$1.64, beginning October 1, 2024. The \$1.00 increase of the tax is allocated to the Education Future Fund.

Section 41 amends § 77-2701.02 to state the sales tax rate is 5.5% except as follows:

- 2.75% for transactions that occur within the portion of a good life district established pursuant to the Good Life Transformational Projects Act that's located within the corporate limits of a city or village.
- 30% on consumable hemp products.
- 2% on:
  - Agricultural machinery and equipment purchases for use in commercial agricultural and
  - Manufacturing machinery and equipment and installation, repair, and maintenance services performed on or with respect to manufacturing machinery and equipment.
- 4% on real property maintenance and repair services performed by carpentry contractors or electricians.



Section 43 amends § 77-2701.11 removing the exemption for U.S. postage on direct mail.

Section 44 amends § 77-2701.16 to remove the following from gross receipts:

- The exception for conference bridging service and interstate telecommunications services.
- The exception for furnishing electricity service to a customer generator defined in § 70-2002.
- The exception for the furnishing of electricity service to a customer-generator defined in § 70-2002 and the net energy use billings or statements for such electricity.
- The exceptions for electricity services for the lease or use of street lighting structures or facilities owned by a political division, electric cooperative, or electric membership association.
- The exceptions for motor vehicle repair and maintenance services.

Section 44 amends § 77-2701.16 to add the following to gross receipts:

- Veterinary services and animal grooming but excludes veterinary services or other specialty services performed on livestock as defined in § 54-183.
- Storage and moving services.
- Tattoo and body modification services.
- Hair removal services.
- Massage services.
- Skin care services.
- Hair care services.
- Cleaning of clothing excluding amounts exempt pursuant to § 77-2704.14.
- Local, fixed-route passenger transportation by road or transit rail.
- Long-distance passenger transportation by road, except fixed route passenger transportation.
- Local taxi service
- Local passenger transportation by chartered road vehicles, including limousines and similar luxury vehicles.
- Sightseeing service by ground vehicles.
- Legal services.
- Accounting services.
- Services of real estate agents and real estate appraisers.
- Investment advice.
- Travel agency services.
- Tour operator services.
- Real property maintenance and repair services, including services of painting and wall covering contractors, poured concrete foundation and structure contractors, framing contractors, roofing contractors, siding contractors, electricians, plumbing, heating, and air conditioning contractors, drywall and insulation contractors, flooring contractors, and carpentry contractors.
- Motor vehicle repair and maintenance services including body repair, brake repair, electrical system repair, muffler and exhaust system repair, air conditioning and heating system repair, power train repair, scheduled preventative maintenance, wheel and alignment services, and repair of recreational motor vehicles.
- Weight loss services.
- Bail bonding services.
- Telefloral delivery services.
- Seismograph and geophysical services.
- Water well drilling.
- Loan broker services.

- Real estate management services.
- Real estate management services.
- Real estate title and abstracting services.
- Reporting of financial information for use by investors.
- Dating services.
- Services of fishing and hunting guides.
- Golf lessons, dance lessons, or tennis lessons.
- Swimming pool cleaning and maintenance services.
- Tax return preparations.
- Debt collection services.
- Providing credit report information.
- Employment agencies and temporary help agencies.
- Interior design and decorating services.
- Lobbying services.
- Marketing and telemarketing services.
- Service of process.
- Public relations services.
- Secretarial and court reporting services.
- Telephone answering services.
- Services of testing laboratories, excluding any such services as part of medical treatment.
- Information services.
- Data processing services.
- Mainframe computer access and processing services.
- Providing access to parking lots and parking garages.
- Land surveying services.
- Providing chartered flights.
- Labor for repair and maintenance services performed with regard to railroad rolling stock, motor vehicles, watercraft, or aircraft engaged as common or contract carriers.

Section 44 also removes the sale of digital goods from the definition of gross receipts and Section 47 amends § 77-2703(1) to impose sales tax on all sales of products transferred electronically or in any other manner, regardless of whether permanent or less than permanent use is granted by the seller and whether the sale is conditioned on continued payments. An exception is provided for when the sale of and the storage, use, or other consumption of such products sold in a tangible, non-electronic form are exempt from taxation. Transferred electronically is defined as accessed or obtained by the purchaser by means other than tangible storage media. Under this subsection, a product is furnished if provided as a service, including but not limited to storage, processing, and co-location services. This amendment replaces the tax on the specified digital products currently found in § 77-2701.16(9).

Section 46 adds the definition of consumable hemp to the Nebraska Revenue Act of 1967.

Section 48 removes the exception for including the following in gross income:

- Fees and admissions charged for participants in any activity provided by a nonprofit organization which conducts statewide sport events with multiple sports both adults and youth.
- Fees and admissions charged for participants in any activity provided by a nonprofit organization which is primarily dedicated to youth development and healthy living, and offers sports instruction, sports leagues, or sports events in multiple sports.

Section 49 amends § 77-2704.24 to impose sales and use tax on the sale of candy, soft drinks and food provided by fraternities, sororities, cooperative student societies, and summer camps that charge a single amount to attend.

Section 52 amends § 77-2716(4) to end the adjustments to federal adjusted gross income or, for a fiduciary, federal taxable income for the portion of the income or loss received from an S corporation or LLC that is not from Nebraska sources. This adjustment will only apply to taxable years beginning before January 1, 2024.

Section 53 amends § 77-2734.01 to remove the adjustments to Nebraska taxable income for resident shareholders of S corporations or LLCs organized under the Nebraska Uniform Limited Liability Act for any income or losses received from an S corporation or LLC that are not from Nebraska sources. For taxable years beginning on or after January 1, 2024, such resident shareholders must include in their Nebraska taxable income, to the extent included in federal gross income, their proportionate share of the S corporation's or LLC's federal income.

Section 59 removes the credit exclusion for a renewable electric generation facility.

### **Education Future Fund**

Section 54 amends § 77-27,132(2) to provide a credit to the Education Future Fund in an amount equal to the sum of :

- i) The increase in sales and use tax revenue resulting from the changes made by LB 1; and
- ii) The increase in income tax revenue from eliminating the increasing and decreasing adjustments for S corporation and LLC non-Nebraska income and losses.

The Tax Commissioner must determine the amount to be credited annually.

### **Local Option Revenue Act**

Section 57 adds Section 58 to the Local Option Revenue Act, which is to exempt local option tax from being imposed by the new subsections (4) and (5) of 77-2701.02 which add a new state sales tax on agricultural machinery and equipment purchases for use in commercial agriculture; manufacturing machinery and equipment and installation, repair, and maintenance services performed on or with respect to manufacturing machinery and equipment; and real property maintenance and repair services performed by carpentry contractors or electricians.

### **ENDS**

Section 61 and 62 increases that tax rate on ENDS to 30%. The bill removes the term consumable material when determining the tax amount. This causes ENDS hardware without consumable material to be subject to the tax. Two-third of the tax revenue relating to ENDS is allocated to the Education Future Fund and the other revenue relating to ENDS is credited to the general fund.

### **Other Sections of LB 1**

Section 65 limits the personal property tax exemption for Beginning Farmer Tax Credit Act to tax years prior to 2025.

Section 66 amends § 77-6702 to remove the definition of allowable growth percentage from the Nebraska Property Tax Incentive Act.

Section 67 amends § 77-6703 to sunset the school district property tax credit. It will apply to tax years beginning before January 1, 2024.

Section 69 amends § 79-1021, Education Future Fund – adds other funding language; add to the allowable uses of the fund “to provide property tax relief under the School District Property Tax Relief Act”. Mandates the State Treasurer to transfer the following funds from the General Fund to the Education Future Fund:

- Fiscal Year 2024-2025: \$1,285,000,000
- Fiscal Year 2025-2026: \$1,360,000,000
- Fiscal Year 2026-2027: \$1,603,000,000, and each fiscal year thereafter.

Section 76 repeals the statutes providing exemptions from sales and use taxes for:

- Agricultural machinery and equipment, including net wrap, baling wire, and twine;
- Biochips;
- Catalysts, chemicals, and materials used in the process of manufacturing ethyl alcohol;
- Copyrighted material used for rebroadcasting;
- Currency or bullion;
- Purchases and services from data centers;
- Purchases by historic automobile museums;
- Manufacturing machinery and equipment and related services;
- Membership to, admissions to, or purchases by zoos or aquariums;
- Mineral oil applied to grain as dust suppressant;
- Molds, dies, and patterns;
- Personal property used in community-based energy development (C-BED) projects;
- Purchases by licensees of the State Racing and Gaming Commission;
- Purchases of certain property or fine art by museums;
- Satellite programming and services;
- State lottery tickets;
- Telecommunications services or dark fiber between telecommunications companies;
- Videotape and film rentals; and
- Youth sports events, youth sports leagues, or youth competitive education activities.

Section 76 also repeals the statutes providing definitions of:

- Delivered electronically;
- Digital audio works;
- Digital audiovisual works;
- Digital books; and
- Digital code.

Section 76 also repeals the statute providing the definition of consumable material under the Tobacco Products Tax Act.

Section 77 provides the E-clause.

**Fiscal Impact**

LB 1 is estimated to generate the following amounts and credited to the Education Future Fund:

	FY2024-25	FY2025-26	FY2026-27
Repeal Refundable Income Tax Credit for Property Tax Paid	\$ 565,135,000	\$ 649,373,000	\$ 674,016,000
Reducing Property Tax Credit Fund	\$ -	\$ 235,000,000	\$ 265,000,000
New Revenue from Sales Tax	\$ 417,429,000	\$ 648,058,000	\$ 670,736,000
Non-Nebraska S Corporation and LLC Income/Loss Exclusion	\$ 59,751,000	\$ 38,841,000	\$ 35,716,000
Increase in Cigarettes Tax (\$.64 to \$1.64)	\$ 37,519,000	\$ 54,370,000	\$ 52,589,000
Increase in Spirit Tax (\$3.75 to \$14.50)	\$ 26,915,000	\$ 40,516,000	\$ 40,661,000
Advertising Service Tax Act	\$ 33,756,000	\$ 53,828,000	\$ 58,066,000
Consumable Hemp (30%)	\$ 3,924,000	\$ 6,180,000	\$ 6,489,000
ENDS (30%) - 2/3 to Education Future Fund and 1/3 to GF	\$ 16,045,000	\$ 24,877,000	\$ 25,623,000
Cash Devices (20%)	\$ 5,202,000	\$ 8,036,000	\$ 8,277,000
Increase in Keno Tax (2% to 5%)	\$ 11,250,000	\$ 15,525,000	\$ 16,068,000
<b>Total</b>	<b>\$ 1,176,926,000</b>	<b>\$ 1,774,604,000</b>	<b>\$ 1,853,241,000</b>

Summary of other funds:

	FY2024-25	FY2025-26	FY2026-27
General Fund	\$ 10,030,000	\$ 15,346,000	\$ 15,624,000
Education Future Fund	\$ 1,176,926,000	\$ 1,774,604,000	\$ 1,853,241,000
Local option sales tax (1.5%)	\$ 89,681,000	\$ 159,416,000	\$ 165,480,000
Highway Trust Fund	\$ 21,394,000	\$ 37,989,000	\$ 39,391,000
Highway Allocation Fund	\$ 3,773,000	\$ 6,655,000	\$ 6,951,000
<b>Total</b>	<b>\$ 1,301,804,000</b>	<b>\$ 1,994,010,000</b>	<b>\$ 2,080,687,000</b>

LB 1 will require a one-time programming cost of \$420,670 paid to the OCIO for programming and web development changes. DOR will also need to hire 4.5 FTE Revenue Operation Clerk II, 2.0 FTE Revenue Agents, 0.5 FTE Information Technology Business System Analyst, 2.0 Revenue Auditors III, 1.0 FTE of Tax Specialist Senior, and 4 Fiscal Compliance Analyst for implantation of LB 1.

Please complete ALL (5) blanks in the first three lines.

**2024**

**1st Special Session**

**LB1**<sup>(1)</sup> *Adopt the Property Tax Growth Limitation Act, the School District Property Tax Relief Act, and the Advertising Services Tax Act and change revenue and taxation provisions*

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Douglas County

Prepared by: <sup>(3)</sup> Marcos San Martin, County Admin.      Date      7/29/2024      Phone: <sup>(5)</sup> 402-444-5116  
 Lori Pirsch, County Finance      Prepared:      <sup>(4)</sup>      402-444-6881

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2024-25</u>		<u>FY 2025-26</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	-	-	-	-
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Explanation of Estimate:

LB1 would have a **NEGATIVE (detrimental) fiscal impact** on Douglas County.

LB1 includes text that limits local governments’ annual property tax authority to the greater of zero, or the consumer price index percentage (CPI) change. Unfortunately, such restriction will significantly impede Douglas County’s ability to provide state-mandated services and also to maintain a competitive labor force to serve our community.

Under the terms of LB1, as a consequence, there is a high probability that any increased costs beyond the bill’s budget growth allowance provisions, will come at the sacrifice of non-mandated, yet essential and relied-upon services to Douglas County residents.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2024-25</u>	<u>2025-26</u>
	<u>24-25</u>	<u>25-26</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
<b>TOTAL.....</b>				