

Revised to include timing per Dept of Revenue's response

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2024-25		FY 2025-26	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$25,329,099		\$117,025,600	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$25,329,099		\$117,025,600	

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

This fiscal note has been updated to reflect the proper timing of expenditures under the bill as expenditures are estimated to occur starting in FY25:

LB 853 would make changes to the Homestead Exemption Program.

The bill would make changes so that the exempt amount, for purposes of section 77-3507 and 77-3508, would be the lesser of the taxable value of the homestead or 350% of the average assessed value of single-family residential property in the county or \$300,000, whichever is greater.

The bill would add as of January 1, 2025, homestead exemptions connected to veterans who are disabled but less than 100% disabled due to a service-connected disability. The exempt amount would be an amount equal to the exempt amount multiplied by the disability percentage of the veteran.

The bill would change income limits and exempt amounts under sections 77-3507 and 77-3508 starting in 2024 to make the exemption 100% of the exempt amount for a qualified married or closely related claimant if the claimant's household income is \$75,000 or less and for a qualified single claimant if the claimant's household income is \$60,000 or less. The income amounts would be adjusted based on the Consumer Price Index.

The bill outright repeals provisions that decrease exemption amounts based on maximum value.

The bill contains the emergency clause.

The Department of Revenue (DOR) estimates the following increases to General Fund expenditures for the Homestead Program in its updated fiscal note response:

- FY 24-25: \$25,185,000
- FY 25-26: \$116,943,000
- FY 26-27: \$123,960,000
- FY 27-28: \$131,398,000

The DOR also estimates a need for a one-time charge of \$56,499 to modify the homestead exemption percentage and a need for a Revenue Tax Specialist starting in FY25 to implement the bill.

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.

Political subdivisions are estimated to be reimbursed by the state for property tax losses as a result of this bill. Local governments may need additional staff for the additional applications for homestead exemptions that are expected as a result of this bill.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 853	AM:	AGENCY/POLT. SUB: Department of Health & Human Services
REVIEWED BY: Neil Sullivan	DATE: 2/20/2024	PHONE: (402) 471-4179
COMMENTS: The Department of Health & Human Services assessment of no fiscal impact from LB 853 appears reasonable.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 853	AM:	AGENCY/POLT. SUB: Department of Veterans Affairs
REVIEWED BY: Neil Sullivan	DATE: 2/20/2024	PHONE: (402) 471-4179
COMMENTS: The Department of Veterans Affairs assessment of no fiscal impact from LB 853 appears reasonable.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 853	AM:	AGENCY/POLT. SUB: Douglas County Assessor
REVIEWED BY: Neil Sullivan	DATE: 2/20/2024	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Douglas County Assessor assessment of reimbursed fiscal impact from LB 853.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 853	AM:	AGENCY/POLT. SUB: Lancaster County
REVIEWED BY: Neil Sullivan	DATE: 2/20/2024	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Lancaster County assessment of no fiscal impact and unquantified revenue impact from LB 853.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 853	AM:	AGENCY/POLT. SUB: Nebraska Association of County Officials
REVIEWED BY: Neil Sullivan	DATE: 2/20/2024	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Nebraska Association of County Officials assessment of minimal administrative impact from LB 853.		

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

State Agency or Political Subdivision Name:(2) Department of Health and Human Services

Prepared by: (3) John Meals

Date Prepared 1-25-2024

Phone: (5) 471-6719

	<u>FY 2024-2025</u>		<u>FY 2025-2026</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$0	\$0	\$0	\$0

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

There is no fiscal impact to the Department of Health and Human Services.

MAJOR OBJECTS OF EXPENDITURE

PERSONAL SERVICES:

POSITION TITLE	NUMBER OF POSITIONS		2024-2025 EXPENDITURES	2025-2026 EXPENDITURES
	24-25	25-26		
Benefits.....				
Operating.....				
Travel.....				
Capital Outlay.....				
Aid.....				
Capital Improvements.....				
TOTAL.....			\$0	\$0

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

2024

LB⁽¹⁾ 853 REVISED

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Douglas County Assessor/Register of Deeds

Prepared by: ⁽³⁾ Michael Goodwillie Date Prepared: ⁽⁴⁾ (1/11/2024 Phone: ⁽⁵⁾ (402) 444-6703

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	\$93,100.80		\$95,428.32	
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	\$93,100.80		\$95,428.32	

Explanation of Estimate:

LB 853 would make very significant changes to the homestead exemption program, adding additional recipients, more value, and a greater tax loss to be reimbursed by the state to local political subdivisions. It:

--Raises the exempt amount for homestead exemption for all classes that are not veterans with 100% permanent disability that is service-connected to 350% of the average value of a single-family residential home in the county. This past year, the average value of a single-family home in Douglas County was \$253,990, so under this bill, the exempt amount could be up to \$888,965. That said, I initially thought that the author of the bill left section 77-3505.02 in place. That section provides a maximum value for eligibility purposes of 200% of the single-family home value for the over-65 class and 225% of that value for those who are disabled. Conceptually, 77-3505.02 caps eligibility and then the current exempt amounts of 100% (seniors) and 120% (disabled) work within those eligibility requirements. But a closer reading of the bill indicates that the maximum value for eligibility sections were repealed. Meaning that yes, a property valued up to almost \$889,000 could be exempt from property taxes. Currently, for seniors (the amount is a bit higher for those with disabilities), the exemption tops out at 100% of the average value of a single-family dwelling. In Douglas County, for 2023, that amount was \$253,990. Obviously, if the bill were to pass, the increased exemption amount would exempt more value, increase the "tax loss" for local political subdivisions, and increase the amount that the state reimburses those political subdivisions. (Currently, the entire homestead property tax loss to local political subdivisions is reimbursed out of the state's general fund.)

--It provides for a percentage exemption for those veterans with a permanent service connected disability that is less than 100% in the amount of their disability percentage. So, a person with a 70% disability would receive a 70% exemption. This would be applied no matter the value of the home the same as for the 100% service-connected disability veterans.

--It changes the rules regarding income limits. Currently, there is a sliding scale of income that phases out the exemption on a percentage basis as income increases. Those go away as does the concept of percentage exemptions based on income. Instead, an applicant would get the full exemption if household income was \$75,000 or less for married or closely related claimants and \$60,000 or less for single taxpayers. Those amounts would get adjusted each year for cost of living. For some perspective, for married households, 100% exemption, based on income topped out at \$38,900.99 and the top amount before a married applicant is completely out of the program is \$57,700.99.

--The bill has an emergency clause, which is troubling from an administrative standpoint. The session ends in mid-April, right in the middle of homestead season. (Applications are filed between February 1 and June 30) I'm not sure how, administratively, you manage a sea change in terms of eligibility (adding a new class of

--The bill has an emergency clause, which is troubling from an administrative standpoint. The session ends in mid-April, right in the middle of homestead season. (Applications are filed between February 1 and June 30) I'm not sure how, administratively, you manage a sea change in terms of eligibility (adding a new class of partially disabled applicants and changing the eligibility rules based on income) in mid-season.

In looking at the impact of the changes, the big picture relates to more recipients, more value exempt from tax, and a greater tax loss that would come from the State of Nebraska to the local political subdivisions that levy property taxes in Douglas County.

The change in the exempt amount would look like this: Currently, there are 97,435 single-family dwellings in Douglas County with an assessed value of \$260,000 or less. (For argument's sake, let's use \$260,000 as the average assessed value of a single-family dwelling in Douglas County for 2024. It was \$253,990 for 2023 and a new average of \$260,000 is an increase of just over 2%, which is very conservative.) Using preliminary values for 2024, those 97,435 homes represent \$17,240,713,100. For seniors, that would represent the full exemption amount under current law. Under LB 853, the exemption would be 350% of the value of an average single-family dwelling in the county. Since that would be capped by the maximum value eligibility amount that remains unchanged by the bill, the exemption would top out in Douglas County at \$520,000. There are 158,023 single-family dwellings in Douglas County with a value of \$520,000 or less, representing \$38,636,304,700. Now, under LB 853, homestead would still be limited to seniors, people with certain disabilities, and certain categories of veterans, their widows/widowers, and remarried widows/widowers who remarry after the age of 57. But, using U.S. Census data, seniors represent 14.3% of the population in Douglas County. Applying that percentage to the increased value amounts creates the potential for 22,597 seniors to be eligible for homestead and receive exemptions that represent up to \$5,524,991,572 in value. Multiplied by a tax rate of 2.25% is \$124,312,310 in potential tax loss to local political subdivisions. That said, clearly not all of those potential seniors would qualify—the bill still does have income limits (albeit much higher than those currently in place), and not all of those single-family homes are owner-occupied. But it is undeniable that increasing the amount of the exemption will result in a greater tax loss. (For perspective, the tax loss due to homestead for 2023 was \$40,914,046.)

The change to the income requirements will result in more people qualifying for homestead and the amount of exemption (and tax loss). Raising the income limit to \$75,000 for married households almost doubles the income amount that qualified an applicant for a full exemption last year. The Department of Revenue denied 713 applications for homestead based on income in Douglas County. We do not know how many of those denied applications had incomes of less than the new income parameters of LB 853. We also do not know how many people whose income was too high for homestead exemption last year but whose income would meet the requirements of LB 853 did not apply at all. (People can look at our website and see the income chart that the Department of Revenue prepares each year and know whether they would qualify or not based on their previous year's income.) We also know that we had 11,468 properties total in the homestead exemption program. Of those, 3,830 were "partial qualifiers" based on their income, meaning that their income was too high for a full exemption but not so high that they didn't qualify for between a 90% and 10% exemption. With the new income requirements of LB 853, those would all be full qualifiers. For this latter group, if you use the average value of a single-family home in Douglas County last year (\$253,990) as your benchmark, and use an exemption qualification percentage of 50%, the exempt amount last year was \$486,390,850. Since each member of this class would be a full qualifier under the new income standard, that exempt amount for those applicants would double, representing \$972,781,700 in value. A 2.25% tax rate applied to the additional \$486,390,850 in exempt value would result in a tax loss (and state reimbursement amount) of \$10,943,794. If you add some portion of the 713 denied last year based on income, that tax loss becomes more, and if you operate under the assumption that there will be people who did not apply in previous years because of their income who now will, that tax loss becomes greater still.

According to the Douglas County Veterans Services Office, 7,363 veterans in Douglas County rated at less than 100% disability. We don't know if all of them are owner-occupants as defined by the Homestead Exemption statutes and because of that we don't know how much value would be exempt and how large the "tax loss" reimbursed by the state to local political subdivisions would be. That 7000+ number is the outer edge of potential applicants of that class. Last year, the average single-family dwelling in Douglas County had a value of \$253,990. Hypothetically, if 1,000 people from this class applied and owned a house worth the

average value amount, that represents \$253,990,000 in value. Multiplied by a 2.25% tax rate (on the low side in Douglas County), that represents \$5,587,780 in property taxes. Because the people in this class would be percentage qualifiers, based on their disability percentage, the tax loss would be something less than that. Without any empirical basis, if you just said that the average disability rating was 50%, you would have a tax loss for this class of \$2,793,890. Under current law, the State of Nebraska would reimburse the local political subdivisions for that tax loss. Generally, Douglas County represents between 25 and 30% of the homestead tax loss statewide. This added class could add somewhere in the neighborhood of \$11,000,000 to the state reimbursement amount. I realize that these are, at best, somewhat educated guesses because there are pieces related to the home ownership and value of those homes for people in this class that we simply don't know. But there certainly would be an uptick in applicants, the amount of tax loss, and the amount the state would need to reimburse political subdivisions.

In looking at the increase in potentially eligible homestead recipients, there would be an immediate need in our office for additional staffing, because the bill has an emergency clause. Although it is impossible to estimate how many additional application LB 853 would generate (you are trying to anticipate how many people who were not previously in the applicant pool would now apply for exemption), conservatively we think you would be looking at several thousand new applicants. Because there is an emergency clause, they would begin coming in this spring. That many new applicants would require at least two new staff members. If there are more applicants than that, potentially there could be more staff required. Providing an exemption of up to the full "maximum value" (in excess of \$500,000 in Douglas County) for married seniors with a household income of \$75,000 (\$60,000 for singles), plus another class of veterans will significantly add to the pool of applicants, necessitating additional administrative costs.

Although not a cost to this office or even an immediate cost to the county and the other local political subdivisions located here, these changes will undoubtedly add to the homestead tax loss that is reimbursed by the State of Nebraska. A conservative estimate of the additional tax loss for just the new veteran class and the uptick in the amount of value exempted, could result in a tax loss of \$10,000,000. Add new applicants because of the increased income limits, and that amount could double, to \$20,000,000. Multiply that by four and you might get an idea of what the statewide increased reimbursement would be.

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>
Assessor Support Tech	2	2	93,100.80	95,428.32
Benefits.....				
Operating.....				
Travel.....				
Capital outlay.....				
Aid.....				
Capital improvements.....				
TOTAL.....			93,100.80	95,428.32

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

2024

LB⁽¹⁾ 853

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Lancaster County Assessor/Register of Deeds

Prepared by: ⁽³⁾ Dan Nolte Date Prepared: ⁽⁴⁾ 01/04/2024 Phone: ⁽⁵⁾ 402-441-7463

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:

This proposed legislation appears to have minimal impact on our budget.

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.....	_____	_____	_____	_____

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

2024

LB⁽¹⁾ 853

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Lancaster County

Prepared by: ⁽³⁾ Dennis Meyer Date Prepared: ⁽⁴⁾ 1-10-24 Phone: ⁽⁵⁾ 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:

No fiscal impact to Lancaster County – additional funding will come from the state.

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.....	_____	_____	_____	_____

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

2024

LB⁽¹⁾ 853

FISCAL NOTE

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

Prepared by: ⁽³⁾ Elaine Menzel Date Prepared: ⁽⁴⁾ 1/9/2024 Phone: ⁽⁵⁾ 402.434.5660

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:

LB 853 would double the homestead exemption amount from 150 % to 300 % of the average assessed value of single and \$40,000 to \$300,000 whichever is greater. Additionally, other modifications to the homestead exemption program would be made increasing the pool of eligible qualified claimants. Such increase in qualified claimants would result in an unknown number of additional claims to process by county assessors and county boards of equalization. The fiscal impact to counties would be negligible.

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.....	_____	_____	_____	_____

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

2024

LB⁽¹⁾ 853

FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ Nebraska Department of Veterans Affairs (NDVA)

Prepared by: ⁽³⁾ Nicole S Zimmermann Date Prepared: ⁽⁴⁾ 1/4/2024 Phone: ⁽⁵⁾ 531-220-1433

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:

"No Fiscal Impact"

LB 853 does not have any fiscal impact for Nebraska Department of Veterans Affairs.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

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

Fiscal Year	General Fund Expenditures
FY2024-25	\$ 25,185,000
FY2025-26	\$ 116,943,000
FY2026-27	\$ 123,960,000
FY2027-28	\$ 131,398,000

LB 853 will require a one-time charge of \$56,499 to modify the homestead exemption percentage. In addition, DOR will need to hire 1.0 FTE tax specialist starting with FY2024-25 to implement this bill.

This bill contains an emergency clause and becomes law upon enactment.