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**Capitol View**

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**Nothing Really Grand About the Grand Compromise**

A three-subject bill (LB1107) passed at the last minute by the 2020 Legislature has been called the Grand Compromise. But, now that the ink has dried, it’s really hard to find anything “grand” about it.
 The 150-page measure, introduced by Speaker of the Legislature Sen. Jim Scheer of Norfolk, contains: a new tax credit based on the amount of property taxes paid to a taxpayer’s school district; a new business tax incentive program; and a requirement to provide matching funds for a potential project at the University of Nebraska Medical Center.

The heavily amended version of the bill was presented to lawmakers 24 hours before they were to take a first-round vote. It was polished with all the “trust us” that the governor and the speaker could muster.
 One has to think there was some skepticism because it took cloture motions (ceasing debate) to advance it from each round. Still, lawmakers have talked every year for as long as I can remember about decreasing the property tax burden while providing adequate and equitable funding for the public schools. What they avoided this year, as they always have, was meaningful reform of Nebraska’s tax system.

The bill, as passed, limits the total amount of property tax credits to $125 million this year. For the following three years, that amount could increase based on growth in the state’s net tax receipts and the level of its cash reserve. The credit cap will increase to $375 million in 2024. For each year after that, the total amount of credits will be $375 million plus an allowable

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growth percentage equal to the growth in real property value, not to exceed 5 percent in any one year.
 A new business tax incentive program, the ImagiNE Nebraska Act, was included in the measure to replace the Nebraska Advantage Act, which ends this year. Qualifying businesses will receive incentives based on their level of capital investment and the number of employees they hire at a minimum-qualifying wage.
 An all-hazards disaster response facility at the University of Nebraska Medical Center in Omaha will receive $300 million in matching funds from the state if the project is selected for participation in a federal program and $1.3 billion in federal funds and private donations have been received. No funds will be transferred before fiscal year 2025-26.

The private non-profit Tax Foundation has criticized the bill for repealing the state’s $10,000 minimum tangible personal property tax exemption. Under current law, owners of taxable tangible personal property — including manufacturing and agricultural machinery and equipment — may exclude the first $10,000 worth of taxable personal property when calculating their tax liability. The Tax Foundation says that could wind up costing farmers and businesses $15 million to $17 million a year at a time when most states have been reducing the tax. The repeal will sharply increase compliance costs for small businesses and farms for very little revenue.

OpenSky Policy Institute, a Lincoln-based think tank focusing on Nebraska state issues, said LB1107 merely increases state tax credits to offset local property taxes paid while doing nothing to address the root of the problem: high local property tax burdens attributable to rising property valuations and many local political subdivisions’ acceptance of that revenue.
 Executive Director Renee Fry said the state has poured ever-increasing amounts of money into the Property Tax Credit Cash Fund since it was created in 2007. As property values rise, local taxing authorities are required to keep

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the total levy constant. But they can easily raise additional revenue from rising valuations if they hold a public hearing and vote to accept the revenue. That means property taxes remain on an upward trajectory in most subdivisions.

The Department of Revenue projects that LB1107 will cost the state $4.6 billion over 11 years. Meanwhile, the measure offers little in the way of offsetting revenue and instead largely banks on speculative revenue projections and one-time funding sources. This will likely force lawmakers to make cuts to vital services like education and health and human services to cover the measure’s cost.

Fry likened the situation to the Kansas tax cuts of 2012 and 2013. Those tax cuts, which also lacked significant offsetting revenue, devastated the state’s economy and led to nine rounds of budget cuts over four years. The wreckage included crumbling roads, school years ending early because of low funds and wait lists for disability services that were several years long.

Since the Nebraska plan is to be paid for using one-time funds and revenue projections that are speculative at best – in the middle of a global pandemic and record economic downturn - there’s reason to question.

Maybe Nebraska lawmakers will look at tax reform next year. It would be great if they could go there voluntarily, but something tells me it’ll be forced.

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*J.L. Schmidt has been covering Nebraska government and politics since 1979. He has been a registered Independent for 20 years.*