



LANCASTER COUNTY BOARD OF COMMISSIONERS

Bernie Heier

Larry Hudkins

Deb Schorr

Brent Smoyer

Jane Raybould

Kerry Eagan, *Chief Administrative Officer*

Gwen Thorpe, *Deputy Administrative Officer*

Honorable Governor Dave Heineman
State Capitol, P.O. Box 94848
Lincoln, NE 68509-4848

October 9, 2012

Dear Governor Heineman:

Recent events involving the pledge of local government funds for the proposed cancer research and treatment center in Omaha have raised questions regarding the importance of inheritance tax revenue to Nebraska counties. An impression has been created that inheritance tax is used only for discretionary projects which are not essential to core functions and services.

In Lancaster County this is simply not the case. Every year the inheritance tax plays a key role in balancing our budget and keeping property taxes as low as possible. All inheritance tax revenue is deposited into the County's general fund to help cover operating expenditures, thereby providing direct property tax relief. None of these funds are earmarked for special projects which fall outside of the core services delivered by Lancaster County.

The effect of the inheritance tax in lowering property taxes can be directly measured. In FY2010-11 Lancaster County collected \$6,685,528 of inheritance tax, which is equivalent to a property tax levy of 3.5¢ per \$100,000 of value and almost 14% of the entire property tax levy for that budget year. In FY2011-12 the County collected \$8,185,277 of inheritance tax, the equivalent of a 4.3¢ levy and 17% of the entire property tax levy.

In spite of stagnant property valuations, a \$2.5 million decrease of interest revenue since 2008, and the \$3 million loss of state aid and jail reimbursement, the Lancaster County Board managed to keep the property tax levy at the same rate for the last three budget years. This was accomplished by cutting costs, increasing efficiencies, deferring building maintenance and equipment purchases, and most significantly, deferring road maintenance and upgrades.

At the same time the cost and demand for basic services has steadily increased, especially in the area of public safety, which accounts for more than 55% of the County's budget. Due to heavy caseloads an eighth district court judge was added in Lancaster County in 2011 and in 2012 the Legislature added another judge to the County Court serving Lancaster County. Caseloads in the Lancaster County Separate Juvenile Court are also running at capacity, and a new judge may be necessary in the near future. Additional judges means additional work for the County Attorney, Public Defender, and Sheriff. Major revisions to the County's Justice Center are now underway, adding courtrooms to accommodate the new judges. A steadily increasing population is also stretching Sheriff resources to the limit, and increases will become necessary for basic law enforcement services. Due to overcrowding, Lancaster County was required by Jail Standards to build a new jail. This facility is scheduled to open in January of 2013 and will add 39 new County employees.

Against this background of rising costs, strained budgets, and diminishing revenue, eliminating the inheritance tax does not make economic sense. The last three years Lancaster County has averaged \$6.5 million of inheritance tax revenues. A cut of this magnitude cannot be absorbed by cutting costs. For example, a \$6.5 million reduction would require elimination of 150 County jobs, representing 15% of the County workforce. Also, the County could eliminate all spending for public health, community mental health treatment, and the social safety net, amounting to approximately \$5 million, and still not realize enough savings to cover the loss of revenue. Moreover, these programs are preventative in nature and save taxpayer money in the long run. Without these programs significant spending increases would be necessary for law enforcement, the court system, the jail, emergency protective custody, and general assistance. More importantly, without these programs the quality of life in Lancaster County would suffer greatly.

Eliminating the inheritance tax does not result in a tax savings for hard working Nebraskans. In fact just the opposite is true. In a worst case scenario, the County would need to replace most of the lost inheritance tax revenue with a corresponding increase in the property tax levy. Last budget year replacing inheritance tax revenues would have required a 4.3¢ levy increase that would have raised property taxes by approximately \$43 per \$100,000 of value. The average value of a residential parcel in Lancaster County is \$150,000, so the owner would have paid an additional \$64.50 per year. In comparison, this same property taxpayer would probably pay little or no inheritance tax. The elimination of the inheritance tax will result in a tax increase on hard working Nebraskans, not a decrease.

Another misconception is that the inheritance tax discourages businesses from locating in Nebraska. There is no support for this assertion. The inheritance tax is paid by individuals, not companies. And to the contrary, it is more important to businesses to locate in a stable community with adequate infrastructure, a low crime rate, and an effective social safety net - all of which are jeopardized by the elimination of the inheritance tax.

The citizens of the State of Nebraska are best served when state and local government work together to solve problems and provide essential services. Since the Legislature creates duties and responsibilities for counties, the Legislature must also provide adequate funding to perform these duties. Elimination of the inheritance tax deprives counties of a critical funding source, while leaving in place the same statutory responsibilities. Replacement funding can only come from one place, the pockets of hard working Nebraska property taxpayers.

Sincerely,

Deb Schorr, Chair

Larry Hudkins, Vice Chair

Bernie Heier

Jane Raybould

Brent Smoyer

cc: Nebraska State Senators
NACO
Nebraska County Clerks
Omaha World Herald
Lincoln Journal Star