

Putting property tax figures in the form of a story problem

Seward County Independent
Seward, Nebraska, US

Wednesday, September 10, 2025

Page 4, Section: OPINION

680 words, 63in² in size

2,385 circulation



Putting property tax figures in the form of a story problem

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Property taxes can be looked at as a story problem.

Unlike a story problem, though, with property taxes you don't always have all the information you need at the start. In late May and early June, property owners receive notice of valuation changes. In recent years, most property owners have seen very substantial changes (increases) to their property valuations.

This statement doesn't tell the entire story of where your property taxes will land for the year.

After the valuation change statements arrive, local governments set their budgets and determine their levy rate. Each local government subdivision has its own levy rate. These levy rates vary but are each subject to a maximum amount as set by the Legislature.

The levy rate is the effective property tax rate per each \$100 of valuation. The valuation is divided by 100 and then multiplied by the applicable levy rate. This yields the amount of property tax collected for the local subdivision. Each such subdivision's tax collected is added up to determine the total amount of property taxes due for each specific property.

Before the levy rate is set and the total tax for each subdivision is determined, each governmental subdivision has a series of public budget hearings to discuss their expected expenditures for the upcoming year. Each subdivision is further constrained by limitations on how much their budgets can grow year-to-year.

The expected expenses, the growth limitations, the valuations and the levy rates are all sorted out



Legislative Update

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leading to what the actual amount of tax is actually going to be collected on property.

The county board of commissioners, the State Auditor, the State Property Tax Administrator and the Department of Revenue all review different aspects of local budgets, assessments, levy rates, and adjusted valuations.

The full timeline for property taxes can be found here:

https://revenue.nebraska.gov/sites/default/files/doc/pad/calendar/main_calendar.pdf.

For purposes of illustrating this all in a story problem, consider the following:

Jane owns a three-bedroom house in Uni, a small village in Nebraska. On June 1, Jane receives her notice of valuation change for her house. The notice indicates that the valuation of her home increased 20% from the year prior.

The valuation is set at \$250,000. Jane is shocked. Jane likes that her home is worth more (on paper). Jane is frustrated because she believes that her increased valuation will result in a higher property tax bill. Jane stewes, talks to her neighbors, who all see a similar increase in their valuations.

Weeks pass, budget hearings are held, budgets are finalized, and

rates are set. The process continues. In December, Jane receives her property tax statement. On Jane's statement, she sees the following levy rates listed (this is a simplified version of what would be expected on an actual property tax statement):

County: \$0.22
Village of Uni: \$0.18
Uni School District: \$0.68
Education Service Unit: \$0.01
Natural Resources District:

\$0.03

How much does Jane owe in property taxes for the year?

Answer:

County: $\$250,000/100 = \$2,500$
 $\times \$0.22 = \550
Village: $\$250,000/100 = \$2,500$
 $\times \$0.18 = \450
School: $\$250,000/100 = \$2,500$
 $\times \$0.68 = \$1,700$
ESU: $\$250,000/100 = \$2,500 \times$
 $\$0.01 = \25
NRD: $\$250,000/100 = \$2,500 \times$
 $\$0.03 = \75
Total: = \$2,800

Jane would owe \$2,800 in local property taxes on her \$250,000 home for the year. Jane looks at last year's statement and sees that she owed \$2,690 the year before. Her growth in property taxes from the prior year was 4.1% despite her valuation growing by 20%.

The point of this story problem is to illustrate that a big change in one part of the property tax equation doesn't necessarily mean a big change in the end result. That being said, Nebraska has overly relied on property taxes to fund a number of things, especially public education.

I'm hard at work trying to fix that. In the meantime, I hope this provides some information about and perhaps a new perspective in looking at the property tax process.