



How LB34's Hard Cap Threatens Nebraska's Fiscal Stability

Craig S. Maher, University of Nebraska at Omaha

Nebraska lawmakers are considering **LB34**, a bill that would impose a strict limit on how much property tax revenue local governments can raise each year. This hard cap threatens to tie the hands of cities and counties during times of crisis or growth, despite the proponents of the bill who argue it will just control taxes. Policymakers who value strong local services, economic stability, and accountable government should revisit the bill's design.

A better approach can preserve taxpayer protections while still giving communities the flexibility they need to serve residents. State legislators should revise LB34 to allow local voters to override the cap in certain circumstances and tie the cap to inflation or income growth to reflect real-world costs. Additionally, the bill should make exceptions for communities experiencing rapid population or economic growth and promote accountability by encouraging local transparency measures

The Benefits of Built-In Flexibilities

LB34 sets a flat 3% annual limit on property tax revenue growth—with no exceptions. If passed, Nebraska would become one of the strictest states in the country in how it restricts local tax authority. Unlike most states with similar tax or expenditure limits, LB34 does not include built in flexibilities. Other states' caps allow voter-approved overrides, exemptions for emergencies or capital projects, or tie limits to inflation or income growth.

Massachusetts' well-known Proposition 2½, enacted in 1980, limits property tax growth to 2.5% per year while accounting for the value of new construction; however, local voters can override the cap by a simple majority vote. This has enabled Massachusetts towns to fund critical needs such as school programs and public safety when residents agree such expenditures are worth a higher tax increase.

Nebraska's own local officials have echoed these concerns during debate on LB34, cautioning that a strict cap could lead to deteriorating roads, fewer parks, library closures or other declines in quality of life over time. This real-world feedback from peers in other states and within Nebraska underscores the fiscal stress that hard caps can create.

Local governments in Nebraska depend heavily on property taxes to fund basic services. Without room to respond to inflation, growth, or emergencies, communities may struggle to balance their budgets, invest in the future, or maintain service quality.

When Hard Caps Backfire

Evidence from across the country shows that hard tax caps can backfire. For example, Washington State's 1% annual levy cap enacted in 2001 has "starve[d] local governments" of revenue needed to keep up with inflation, forcing them to scale back services and even consider layoffs. City and county leaders there testified in 2025 that the hard cap had kneecapped basic services like public safety, and many local governments resorted to temporary solutions.

Rather than truly shrinking government, hard caps often lead localities to find alternate, and sometimes less transparent, ways to raise funds. Studies have found that property tax limits tend to shift the burden to other revenue sources such as higher fees, special assessments, or increased reliance on state aid.

In practice, local governments affected by tax caps commonly hike fees for services like trash collection or parking. Local governments may also create and expand special-purpose districts that lie outside the cap, in order to fund essential needs. After the strict Prop 13 property tax caps in California, many cities turned to sales taxes, hotel taxes, and development fees to fill budget holes, resulting in the development of retail projects at the expense of housing.

History shows that inflexible tax caps can be especially damaging during economic downturns or local emergencies, as well as in periods of rapid growth. During recessions or crises, property values can drop or costs spike suddenly and a hard cap may prevent local leaders from responding.

A case in Michigan during the Great Recession (2008–2012) illustrates this: property values plunged, slashing city and county revenues, but as the economy recovered, Michigan's constitutional caps strictly limited any rebound in tax collections. Local governments were left struggling with budgets that could not "catch up" with post-recession needs. In situations like this, cities and counties need options that promote recovery, infrastructure maintenance, and investment in long-term growth.

What Lawmakers Can Do

Policymakers can protect taxpayers without undermining communities. Based on national evidence and Nebraska's fiscal landscape, the state should consider the following improvements to LB34:

- Allow local voters to override the cap during emergencies or for major projects
- Tie the cap to inflation or income growth to reflect real-world costs
- Make exceptions for communities experiencing rapid population or economic growth
- Promote accountability by encouraging local transparency measures instead of strict top-down controls

As written, LB34 limits the ability of Nebraska's local governments to meet basic needs and prepare for the future. Lawmakers should revise the bill to include flexibility tools that are common in other states. These changes would strengthen local control, maintain service quality, and ensure communities have the capacity to respond to whatever lies ahead.

Read more in:

Steven Deller and Craig S Maher, "Do Local Fiscal Decisions Impact Economic Growth: The Case of Wisconsin." *State and Local Government Review* 56, no. 3 (2024): 235-260.

Steven Deller, Craig S Maher, and Judith Stallmann, **"Do Tax and Expenditure Limitations Exacerbate Rising Income Inequality?"** *Economics and Politics* 33, no. 3 (2021): 611-643.

Judith Stallmann, Craig S Maher, Steven Deller, and Sungho Park, **"Surveying the effects of limitations on taxes and expenditures: What do/don't we know?"** *Journal of Public and Nonprofit Affairs* 3, no. 2 (2017): 197-222.