

TAX RATE REVIEW COMMITTEE
November 15, 2011

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The Tax Rate Review Committee met at 1:30 p.m. on Tuesday, November 15, 2011, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a meeting. Members present: John Wightman, Chairperson; Abbie Cornett; Doug Ewald; Mike Flood; and Lavon Heidemann. Members absent: None. Also present: Mike Calvert.

SENATOR WIGHTMAN: Okay, we'll go ahead and open the meeting as a Tax Rate Review Committee. I'd call upon Mike to give us the reports from the legislative analyst's position.

MIKE CALVERT: Okay. Thank you. My name is Michael Calvert, the for the record, Legislative Fiscal Analyst. I'm referring to the report that we sent to you this past...well, actually got it out to you yesterday. What we give you is an outlook of the General Fund for the current budget biennium and the next two fiscal periods beyond that. So we're looking out towards June 30, 2015. There have been some revisions since your last meeting in July. The financial status that we would portray as current is on page 1 with revenue adjustments per the Forecasting Board this past October on line 9, and some other adjustments we will describe later on lines 21a and 21b. It's probably easiest just to track through the changes since July. If you go to page 2, there's a chronology of the financial status the last time this committee met. In July, for the current budget biennium, we were looking at a balance that was slightly below the minimum reserve at that time by about \$9.4 million. And if you look out into the future, the imbalance was something larger. Major changes since July was the Forecast Board meeting in October. That is the first line below the July 2011 Tax Rate Review Committee line. Two revenue adjustments for the current and next fiscal year, 51.9 and 61.4. By operation of current law, the \$51.9 million revenue increase comes off of the General Fund financial status, thus shows a reduction as 51.9. And that goes in the Cash Reserve, assuming you hit that new revenue forecast exactly to the dollar. Slight adjustments due to the reserve calculation, so as of the Forecast Board meeting we were slightly above the minimum reserve requirement of about \$50.2 million. Subsequent to that, and we received a letter yesterday from the Department of Education certifying revised estimates for school aid, we have revised TEEOSA estimates as of November 2011. That involves staff of the Fiscal Office, Department of Administrative Services-Budget, I don't know if Revenue...well, oh, yeah, probably Property Tax Administrator in working through estimates and how it would affect the TEEOSA aid formula for the next fiscal year. And then staff likewise will work on an as-if basis, trying to stretch that estimate into the future. So for 2012-2013, we are looking at the possibility and a certification of TEEOSA aid for that year that is about \$50.7 million lower. So that adds to the bottom line. However, the circumstances that cause that reduction in school aid for that year, somewhat they reverse themselves and is described in the text down at the bottom of the page where it would appear that school aid costs will likely spike up in 2013-14 and '14-15 for certain factors that are described. We also lay out in the middle of that

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section, table 2, mid-biennium budget requests. We currently have requests at \$22.2 million General Fund and \$25.9 million General Fund in '12-13. This is not to say that every one of those things are valid and legitimate. We're just giving you an order of magnitude in terms of the request levels, what might conceivably impact the General Fund. We also make an adjustment for lapses on the General Fund. Basically, it's an appropriation that expires. And typically we don't have information on that until well into August, and I think this year it's actually a little bit later than that in terms of final. So that becomes a resource for the General Fund bottom line. We also maintain an allocation of deficits for fiscal '11-12 that we don't really need because now we have deficit requests. So we just make that go away and substitute the \$22 million. So in terms of net bottom line, \$62.5 million above the minimum reserve, that's what's shown on the financial status for the current budget biennium. And the...based on our assessment, long run in terms of cost growths that are outlined in the report and revenue growths that are on a cyclical basis, our imbalance shortfall to the minimum reserve is projected at \$346.7 as of June 30, 2015. There is additional detail on page 2 and 3 describing the school aid impacts and what's driving them with respects to assumptions on spending growth as it drives the formula and valuation growth. We also have a more detailed breakdown in the middle of page 3 on the General Fund requests, the \$22.5...the \$22 million and the \$25.9 million requests. And again, I'm not vouching for this itemization as it is absolutely necessary that this is as requested. The Appropriations Committee will, of course, review that, make a recommendation, and ultimately the Legislature will decide. Cash Reserve Fund grows somewhat over your last meeting again because of the revenue estimate that is higher for this current year. If we hit that target, theoretically that \$51 million would go to the Cash Reserve Fund under operation of current law. There's a lot of risks in terms of the structural imbalance for the long run, economic uncertainty. The revenue growths are very modest for the time period. Every year starting this year for the next three growth rates year over year are less than long-run average of about 5 percent. And that's kind of an anomaly compared to past recovery periods postrecession. We've usually seen growth rates above the long-run average. These are running lower, and it's consistent with the economic outlook for Global Insight and Moody's that we use, calling for a very slow, very weak recovery and period of economic growth. Are there questions?

SENATOR WIGHTMAN: Does anyone have any questions? Any comments? Anyone have any motion?

SENATOR FLOOD: I move that we not recommend a special session at this time.

SENATOR HEIDEMANN: Second.

SENATOR WIGHTMAN: It's been moved and seconded there be no recommendation of an additional special session. Discussion? If not, all in favor say aye.

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COMMITTEE MEMBERS: Aye.

SENATOR WIGHTMAN: Opposed. Motion carries.

MIKE CALVERT: Thank you.

SENATOR WIGHTMAN: I guess with that...thank you, Mike, for being here and furnishing...

MIKE CALVERT: See you again in July.

SENATOR WIGHTMAN: What?

MIKE CALVERT: See you again in July.

SENATOR WIGHTMAN: Oh, July, okay. With that, we'll be adjourned.