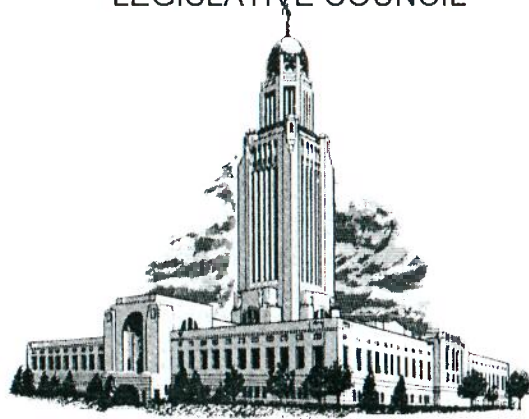


# State of Nebraska

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Legislative Fiscal Office  
PO Box 94604, State Capitol  
Lincoln, NE 68509-4604  
November 15, 2013

Mr. Patrick O'Donnell  
Clerk of the Nebraska Legislature  
Room 2018, State Capitol  
Lincoln, NE 68509-4604

Dear Mr. O'Donnell:

As required by R.S. Supp 2012, 77-2715.01, I am submitting to you at the direction of the Tax Rate Review Committee this letter and its attachments as the annual report of the Committee for 2013.

The attachments are reports reviewed by the Committee on July 23, 2013, and November 15, 2013. At each meeting, the Committee voted unanimously to recommend to the Governor there was no need to call the Legislature into special session to adjust tax rates.

Further, as required by law, this report incorporates by reference the most recent tax expenditure report prepared by the Department of Revenue, as set forth by R.S. Supp. 2012, 77-382. The most recent report may be accessed at the following web address: [http://www.revenue.nebraska.gov/research/burden\\_study.html](http://www.revenue.nebraska.gov/research/burden_study.html).

If you have any questions, please contact me at 402-471-0059.

Respectfully submitted on behalf of the Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Calvert", written over a white background.

Michael Calvert  
Legislative Fiscal Analyst

11140200 MC.doc

Attachments

# TAX RATE REVIEW COMMITTEE

**July 23, 2013**

**Required July Meeting Pursuant to Section 77-2715.01**

**Appropriations Committee Chair  
Executive Board Chair  
Speaker of the Legislature  
Revenue Committee Chair  
Tax Commissioner**

**Senator Health Mello  
Senator John Wightman  
Senator Greg Adams  
Senator Galen Hadley  
Douglas Ewald**

**Prepared by the Legislative Fiscal Office**

## Statutory Required Meetings

Section 77-2715.01 relates to the Legislature setting the sales and income tax rates and creates the Tax Rate Review Committee and its duties and responsibilities

“(1)(a) Commencing in 1987 the Legislature shall set the rates for the income tax imposed by section 77-2715 and the rate of the sales tax imposed by subsection (1) of section 77-2703. For taxable years beginning or deemed to begin before January 1, 2013, the rate of the income tax set by the Legislature shall be considered the primary rate for establishing the tax rate schedules used to compute the tax.

(b) The Legislature shall set the rates of the sales tax and income tax so that the estimated funds available plus estimated receipts from the sales, use, income, and franchise taxes will be not less than three percent nor more than seven percent in excess of the appropriations and express obligations for the biennium for which the appropriations are made. The purpose of this subdivision is to insure that there shall be maintained in the state treasury an adequate General Fund balance, considering cash flow, to meet the appropriations and express obligations of the state.

(c) For purposes of this section, express obligation shall mean an obligation which has fiscal impact identifiable by a sum certain or by an established percentage or other determinative factor or factors.

2) The Speaker of the Legislature and the chairpersons of the Legislature's Executive Board, Revenue Committee, and Appropriations Committee shall constitute a committee to be known as the Tax Rate Review Committee. The Tax Rate Review Committee shall meet with the Tax Commissioner within ten days after July 15 and November 15 of each year and shall determine whether the rates for sales tax and income tax should be changed. In making such determination the committee shall recalculate the requirements pursuant to the formula set forth in subsection (1) of this section, taking into consideration the appropriations and express obligations for any session, all miscellaneous claims, deficiency bills, and all emergency appropriations. The committee shall prepare an annual report of its determinations under this section. The committee shall submit such report electronically to the Legislature and shall append the tax expenditure report required under section 77-382.

In the event it is determined by a majority vote of the committee that the rates must be changed as a result of a regular or special session or as a result of a change in the Internal Revenue Code of 1986 and amendments thereto, other provisions of the laws of the United States relating to federal income taxes, and the rules and regulations issued under such laws, the committee shall petition the Governor to call a special session of the Legislature to make whatever rate changes may be necessary.”

## Annual Report

LB962 enacted in the 2012 legislative session included a new requirement that the Tax Rate Review Committee prepare an **annual** report of its determinations, submit such report electronically to the Legislature, and append the tax expenditure report required under section 77-382 to such annual report. As the Tax Rate Review Committee meets twice each year, for purposes of this provision the annual report will be prepared after the required November meeting.

# Summary

1. Actual receipts for FY2012-13 were \$52.4 million above the forecast used at Sine Die of the 2013 Session which was the April 2013 forecast of the Nebraska Economic Forecast Advisory Board (NEFAB). Adjusted revenue growth for FY2012-13 based on actual receipts is 6.7% compared to the 5.4% growth calculated per the April forecast.

The FY12-13 receipts include an estimated \$125 million of extraordinary capital gains attributed to the timing of federal tax actions. Because of the one-time nature of this revenue, this is included as a rate and base adjustment for purposes of calculating adjusted revenue growth.

2. With the above forecast FY13 receipts, the projected General Fund financial status for the current biennium improves only slightly. The projected ending balance went from \$964,205 to \$7.4 million above the minimum reserve. This is due to the above forecast receipts going to the Cash Reserve Fund, \$5 million of accounting adjustments, the technical impact of recalculating the minimum reserve taking into consideration reappropriations, and then an estimated \$20 million of lapsed appropriation obligations.
3. The Cash Reserve Fund is projected at an unobligated balance of \$679.4 million. This is \$52.4 million above the estimate at the end of the 2013 legislative session. This is the highest dollar amount for an unobligated Cash Reserve Fund ending balance although when considered as a percent of annual revenues, the CRF balance in FY2008-09 was slightly higher.
4. The current status is based on the existing revenue forecast for FY2013-14. The NEFAB will not meet to evaluate this existing FY13-14 revenue forecast until October. With the higher FY12-13 actual receipts (+6.7% growth vs. +5.4%), the FY13-14 calculated growth is now 2.3% with the existing forecast compared to the Sine Die estimate of 3.6%
5. The projected financial status for the following biennium, FY2015-16 and FY2016-17, shows a variance from the minimum reserve of a positive \$10.6 million, a minimal change from the current biennium. This reflects a close balance between the projected spending growth and projected revenue growth using the capped historical average methodology. The final fiscal year, FY2016-17, shows a positive cyclical structural balance between revenues and appropriations..

# Current General Fund Financial Status

## (With FY2012-13 Actual Revenue & Expenditures)

	Actual	Biennial Budget		Following Biennium	
	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
<b>1 BEGINNING BALANCE</b>					
2 Beginning Cash Balance	498,526,356	814,678,170	257,921,459	252,557,794	218,860,862
3 Cash Reserve transfers-above certified prior yr	(104,789,781)	(285,292,610)	0	0	0
4 Unexpended FY12-13 obligations	0	(294,682,194)	0	0	0
5 Est lapse FY13 carryover obligations	0	20,000,000	0	0	0
6 Allocation for potential deficits	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	393,736,575	249,703,366	252,921,459	247,557,794	213,860,862
<b>8 REVENUES</b>					
9 Net Receipts (Actual and Sine Die Adjusted)	4,052,358,610	4,020,687,000	4,157,329,000	4,349,887,000	4,609,898,000
10 General Fund transfers-out	(114,700,000)	(121,300,000)	(116,800,000)	(117,050,000)	(117,050,000)
11 General Fund transfers-in in receipts		0	0	0	0
12 Cash Reserve transfers-legislative	78,000,000	(53,000,000)	0	0	0
13 Accounting adjustment	(5,357,352)	0	0	0	0
14 General Fund Net Revenues	4,010,301,258	3,846,387,000	4,040,529,000	4,232,837,000	4,492,848,000
<b>15 APPROPRIATIONS</b>					
16 Expenditures/Appropriations	3,589,359,663	3,838,168,907	4,040,892,665	4,040,892,665	4,040,892,665
17 Projected budget actions (following biennium)	0	0	0	220,641,267	393,661,361
18 Midbiennium adjustments (2014 Session)	0	0	0	0	0
19 "A" Bills (2014 Session)	0	0	0	0	0
20 General Fund Appropriations	3,589,359,663	3,838,168,907	4,040,892,665	4,261,533,932	4,434,554,026
<b>21 ENDING BALANCE</b>					
22 Dollar ending balance (Financial Status as show	814,678,170	257,921,459	252,557,794	218,860,862	272,154,836
23 Dollar ending balance (at Minimum Reserve)			-- 245,134,997	--	261,502,217
24 Excess (shortfall) from Minimum Reserve			-- 7,422,797	--	10,652,618
25 Biennial Reserve (%)			-- 3.1%	--	3.1%
<b>26 General Fund Budget</b>					
27 Annual % Change	4.7%	5.7%	5.3%	5.5%	4.1%
28 Two Year Average % Change	3.3%	--	5.5%	--	4.8%
<b>29 General Fund Revenues:</b>					
30 Adjusted Growth	6.7%	2.3%	4.6%	5.3%	5.4%
31 Two Year Average	6.1%	--	3.5%	--	5.4%
32 <b>Structural Revenues vs Appropriations</b>	342,941,595	61,218,093	(363,665)	(28,696,932)	58,293,974

<b>CASH RESERVE FUND</b>	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Beginning Balance	428,878,372	384,121,401	679,398,552	679,398,552	679,398,552
Excess of certified forecasts (line 3 in Status)	104,789,781	285,292,610	0	0	0
To/from Gen Fund per current law	(78,000,000)	53,000,000	0	0	0
To/From Water Contingency Cash Fund	4,991,572	0	0	0	0
EPIC cash flow transfers (LB379-2011)	4,461,676	0	0	0	0
To Affordable Housing Trust fund	(1,000,000)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(80,000,000)	(43,015,459)	0	0	0
Ending Balance - Current Status	384,121,401	679,398,552	679,398,552	679,398,552	679,398,552
Ending Balance as % of Revenues	9.5%	16.9%	16.3%	15.6%	14.7%
Projected Balance - End of 2013 Session	384,121,401	627,038,568	627,038,568	627,038,568	627,038,568
Difference	0	52,359,984	52,359,984	52,359,984	52,359,984

# Changes in the Financial Status since Sine Die 2013

(millions of dollars)	FY14/FY15 Biennium	FY16/FY17 Biennium
<b>1. Variance: Sine Die 2013 -----&gt;</b>	<b>964,205</b>	<b>(3,806,249)</b>
2. FY13 Actual vs Est General Fund Net Receipts	52,358,610	52,358,610
3. FY13 Actual vs Est CRF transfers-automatic	(52,358,610)	(52,358,610)
4. FY13 Actual vs Est Accounting adjustment	(5,357,352)	(5,357,352)
5. Assumed lapse, FY13 unexpended	20,000,000	20,000,000
6. Carryover obligations from FY12	249,999	249,999
7. Recalculate 3% minimum reserve	(8,434,224)	(433,766)
8. Total \$ Change Since Sine Die	6,458,592	14,458,868
<b>10. Current Financial Status -----&gt;</b>	<b>7,422,797</b>	<b>10,652,619</b>

## Accounting Adjustments:

Most of the "accounting adjustments" are transfers out that are authorized in statute but not in specific amounts or occur on a deficit basis like the Convention Center support and Dept of Revenue tax enforcement transfer per tax amnesty legislation.

Transfer-Out Fund 21190 Convention Center Support	(3,334,608)
Transfer-Out Fund 21540 & 21541 Dept of Revenue enforcement	(750,000)
Transfer-Out to Mutual Finance Assistance Fund, cash flow	(1,675,000)
Transfer-Out State Patrol drug purchases (diff between \$115,000 and unexpended)	(75,107)
All other accounting adjustments	477,363
Total Accounting adjustment	(5,357,352)

## Lapse of Unexpended FY2012-13 Funds

Per the enacted appropriations bills, all unexpended General Fund appropriations for operations were reappropriated except in certain instances. For aid, all unexpended appropriations expire except in selected instances. In all cases, encumbered funds (where the obligation has been incurred but payment not yet made) are reappropriated. The only lapsed appropriations would be unencumbered state aid amounts which will not be known until late August. At the present time, the financial status includes an estimated \$20 million of lapsed appropriation authority. Of this amount \$6 million is a known amount related to the financing of the vet diagnostic lab project. The remaining \$14 million is a presumed lapse of some unexpended DHHS aid funds. As noted earlier, the actual amount will not be known until late August.

# FY2012-13 Actual General Fund Receipts

Table 1 compares the various forecasts with actual receipts for FY2012-13. Table 2 shows actual receipts and adjusted growth for FY2012-13 and the previous five years, Table 3 shows a chronology of the FY2012-13 forecasts and Table 4 provides historical revenues and adjusted growth rates.

FY2012-13 actual receipts were \$52.4 million above the Sine Die estimates (April 2013 NEFAB forecast) and \$285.3 million above the certified forecast from July 2013.

Table 1 FY2012-13 Actual Receipts vs Forecast

	Cert July 2012 FY2012-13	Oct 2012 FY2012-13	Feb 2013 FY2012-13	April 2013 FY2012-13	Actual YTD FY2012-13	\$ Variance Cert July 2012	\$ Variance Oct 2012	\$ Variance Feb 2013	\$ Variance April 2013
<b>GROSS RECEIPTS</b>									
Sales and Use	1,906,878,000	1,926,828,000	1,937,310,000	1,941,481,000	1,944,467,714	37,589,714	17,639,714	7,157,714	2,986,714
Individual Income	2,232,586,000	2,290,028,000	2,332,322,000	2,463,515,000	2,492,601,926	260,015,926	202,573,926	160,279,926	29,086,926
Corporate Income	276,722,000	289,185,000	306,239,000	307,495,000	318,145,131	41,423,131	28,960,131	11,906,131	10,650,131
Miscellaneous	195,184,000	190,058,000	188,063,000	185,071,000	200,072,864	4,888,864	10,014,864	12,009,864	15,001,864
<b>Total Gross Receipts</b>	<b>4,611,370,000</b>	<b>4,696,099,000</b>	<b>4,763,934,000</b>	<b>4,897,562,000</b>	<b>4,955,287,635</b>	<b>343,917,635</b>	<b>259,188,635</b>	<b>191,353,635</b>	<b>57,725,635</b>
<b>REFUNDS &amp; CREDITS</b>									
City Sales Tax	333,365,000	340,156,000	340,159,000	339,440,000	339,311,365	5,946,365	(844,635)	(847,635)	(128,635)
State Sales and Use	93,607,000	106,672,000	122,151,000	127,041,000	130,213,708	36,606,708	23,541,708	8,062,708	3,172,708
Individual Income	370,449,000	375,028,000	377,322,000	383,515,000	390,689,885	20,240,885	15,661,885	13,367,885	7,174,885
Corporate Income	46,722,000	49,185,000	46,239,000	47,495,000	42,582,141	(4,139,859)	(6,602,859)	(3,656,859)	(4,912,859)
Miscellaneous	161,000	58,000	63,000	71,000	131,926	(29,074)	73,926	68,926	60,926
<b>Total Refunds/Credits</b>	<b>844,304,000</b>	<b>871,099,000</b>	<b>885,934,000</b>	<b>897,562,000</b>	<b>902,929,026</b>	<b>58,625,026</b>	<b>31,830,026</b>	<b>16,995,026</b>	<b>5,367,026</b>
<b>NET RECEIPTS</b>									
Sales and Use	1,479,906,000	1,480,000,000	1,475,000,000	1,475,000,000	1,474,942,640	(4,963,360)	(5,057,360)	(57,360)	(57,360)
Individual Income	1,862,137,000	1,915,000,000	1,955,000,000	2,080,000,000	2,101,912,041	239,775,041	186,912,041	146,912,041	21,912,041
Corporate Income	230,000,000	240,000,000	260,000,000	260,000,000	275,562,990	45,562,990	35,562,990	15,562,990	15,562,990
Miscellaneous	195,023,000	190,000,000	188,000,000	185,000,000	199,940,939	4,917,939	9,940,939	11,940,939	14,940,939
<b>Total Net Receipts</b>	<b>3,767,066,000</b>	<b>3,825,000,000</b>	<b>3,878,000,000</b>	<b>4,000,000,000</b>	<b>4,052,358,610</b>	<b>285,292,610</b>	<b>227,358,610</b>	<b>174,358,610</b>	<b>52,358,610</b>

	Cert July 2012 FY2012-13	Oct 2012 FY2012-13	Feb 2013 FY2012-13	April 2013 FY2012-13	Actual YTD FY2012-13	\$ Variance Cert July 2012	\$ Variance Oct 2012	\$ Variance Feb 2013	\$ Variance April 2013
<b>TOTAL BY MONTH</b>									
July	210,031,000	221,623,977	221,624,000	221,624,000	221,623,977	11,592,977	(0)	(23)	(23)
August	338,861,000	334,866,833	334,867,000	334,867,000	334,866,833	(3,994,167)	0	(167)	(167)
September	365,444,000	393,941,658	393,942,000	393,942,000	393,941,658	28,497,658	(0)	(342)	(342)
October	228,569,000	228,639,000	228,084,000	228,084,000	228,084,028	(484,972)	(554,972)	28	28
November	312,378,000	317,183,000	315,022,000	315,022,000	315,022,112	2,644,112	(2,160,888)	112	112
December	321,723,000	332,864,000	363,239,000	363,239,000	363,239,068	41,516,068	30,375,068	68	68
January	337,258,000	341,295,000	350,993,000	350,993,000	350,993,211	13,735,211	9,698,211	211	211
February	220,588,000	221,371,000	216,047,000	216,047,000	216,047,077	(4,540,923)	(5,323,923)	77	77
March	292,117,000	303,561,000	279,478,000	273,456,000	273,456,199	(18,660,801)	(30,104,801)	(6,021,801)	199
April	432,937,000	428,955,000	463,419,000	592,025,000	625,588,045	192,651,045	196,633,045	162,169,045	33,563,045
May	344,798,000	338,652,000	341,722,000	347,606,000	339,136,046	(5,661,954)	484,046	(2,585,954)	(8,469,954)
June	362,362,000	362,048,000	369,563,000	363,095,000	390,360,355	27,998,355	28,312,355	20,797,355	27,265,355
<b>Total GF Revenues</b>	<b>3,767,066,000</b>	<b>3,825,000,468</b>	<b>3,878,000,000</b>	<b>4,000,000,000</b>	<b>4,052,358,610</b>	<b>285,292,610</b>	<b>227,358,142</b>	<b>174,358,610</b>	<b>52,358,610</b>

Table 2 Actual Receipts and Adjusted Growth

	Actual FY2007-08	Actual FY2008-09	Actual FY2009-10	Actual FY2010-11	Actual FY2011-12	Actual FY2012-13
<b><u>GROSS RECEIPTS</u></b>						
Sales and Use	1,722,004,044	1,707,294,042	1,673,430,858	1,762,331,823	1,853,017,046	1,944,467,714
Individual Income	2,073,827,519	1,960,445,757	1,887,767,904	2,071,513,011	2,179,319,782	2,492,601,926
Corporate Income	285,103,040	253,445,531	216,591,188	220,565,785	262,094,785	318,145,131
Miscellaneous	225,851,383	232,549,461	245,780,857	236,766,768	201,889,679	200,072,864
Total Gross Receipts	4,306,785,986	4,153,734,791	4,023,570,807	4,291,177,387	4,496,321,292	4,955,287,635
<b><u>REFUNDS &amp; CREDITS</u></b>						
City Sales Tax	294,956,626	297,715,229	301,301,154	307,421,792	329,186,366	339,311,365
State Sales and Use	105,180,279	83,417,796	82,332,827	82,125,998	86,921,307	130,213,708
Individual Income	347,682,114	360,027,521	372,937,790	336,304,411	356,435,528	390,689,885
Corporate Income	52,251,386	54,961,745	62,259,051	65,620,819	27,828,547	42,582,141
Miscellaneous	553,010	144,314	60,312	49,275	60,763	131,926
Total Refunds/Credits	800,623,415	796,266,605	818,891,134	791,522,296	800,432,512	902,929,025
<b><u>NET RECEIPTS</u></b>						
Sales and Use	1,321,867,139	1,326,161,017	1,289,796,877	1,372,784,033	1,436,909,373	1,474,942,641
Individual Income	1,726,145,405	1,600,418,236	1,514,830,114	1,735,208,600	1,822,884,254	2,101,912,041
Corporate Income	232,851,654	198,483,786	154,332,137	154,944,966	234,266,238	275,562,990
Miscellaneous	225,298,373	232,405,147	245,720,545	236,717,493	201,828,916	199,940,938
Total Net Receipts	3,506,162,571	3,357,468,186	3,204,679,673	3,499,655,092	3,695,888,781	4,052,358,610
<b><u>ADJUSTED GROWTH</u></b>						
Sales/Use	4.6%	-1.2%	-1.9%	5.7%	4.6%	4.9%
Ind Income	11.0%	-6.6%	-5.4%	13.8%	4.6%	8.0%
Corp Income	9.1%	-12.4%	-11.4%	3.8%	30.7%	9.0%
Misc Receipts	-9.6%	4.3%	-13.5%	4.1%	-6.4%	5.4%
Total GF Revenues	7.1%	-4.4%	-4.8%	9.4%	5.5%	6.7%



Table 3 Chronology of FY2012-13 Revenue Forecasts

	FY2012-13 Revenue Forecasts (Thousands of \$)					Change Due to:			
	Sales/Use	Individual	Corporate	Misc	Total	Forecast	Fed Law	Bills	Total
<b>Board Est-October 2010</b>	1,460,000	1,750,000	210,000	170,000	3,590,000				
Board Est-Feb 2011	1,485,000	1,770,000	200,000	165,000	3,620,000	68,132	(38,132)	0	30,000
Board Est-April 2011	1,480,000	1,840,000	205,000	155,000	3,680,000	60,000	0	0	60,000
Sine Die-2011 Session	1,479,967	1,840,200	205,000	193,454	3,718,621	0	0	38,621	38,621
Board Est-October 2011	1,485,000	1,870,000	230,000	195,000	3,780,000	61,379	0	0	61,379
Board Est-February 2012	1,485,000	1,870,000	230,000	195,000	3,780,000	0	0	0	0
Sine Die-2012 Session	1,479,906	1,862,137	230,000	195,023	3,767,066	0	0	(12,934)	(12,934)
Board Est-October 2012	1,480,000	1,915,000	240,000	190,000	3,825,000	57,934	0	0	57,934
Board Est-February 2013	1,475,000	1,955,000	260,000	188,000	3,878,000	42,566	10,434	0	53,000
Board Est-April 2013	1,475,000	2,080,000	260,000	185,000	4,000,000	(3,000)	125,000	0	122,000
Sine Die-2013 Session	1,475,000	2,080,000	260,000	185,000	4,000,000	0	0	0	0
Actual Receipts FY2012-13	1,474,943	2,101,912	275,563	199,941	4,052,359	52,359	0	0	52,359
Actual vs Sine Die Forecast	(57)	21,912	15,563	14,941	52,359	52,359	0	0	52,359
Change from first NEFAB forecast to actual	14,943	351,912	65,563	29,941	462,359	339,370	97,302	25,686	462,359

**Chronology of FY2012-13 Forecasts**

Adjusted for legislation and federal tax changes

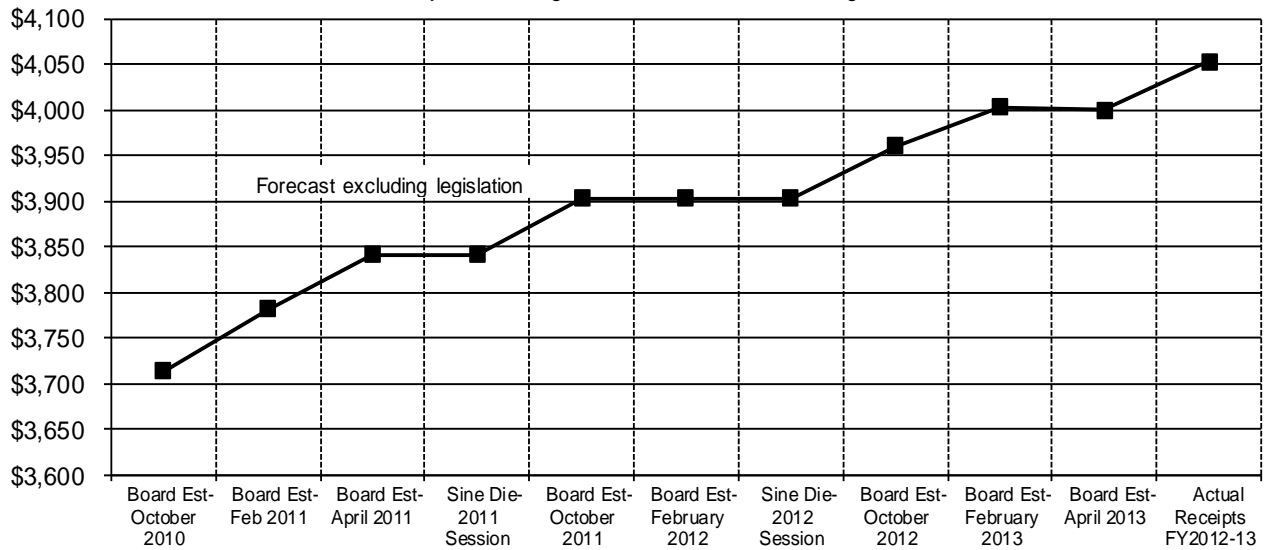
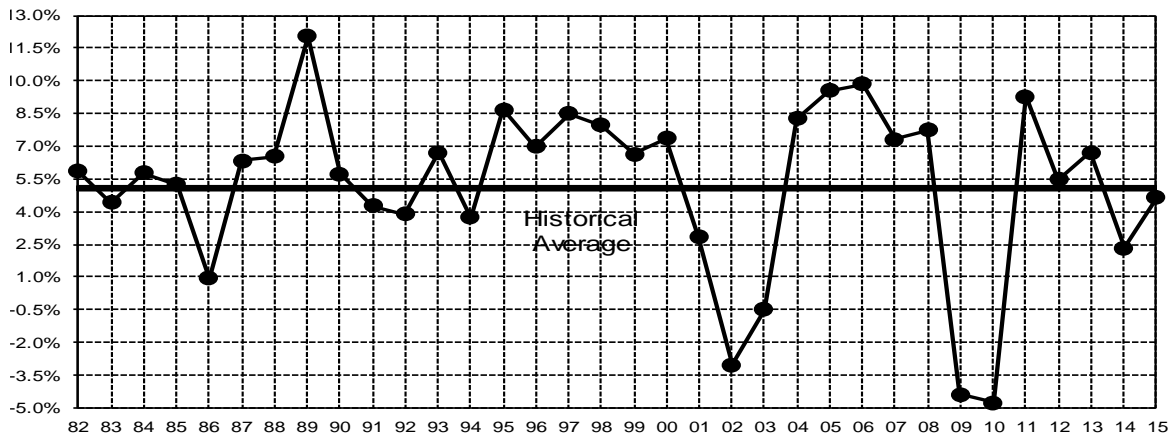


Table 4 Historical and Projected Revenues

	Sales	Individual	Corporate	Miscellaneous	Total	Adjusted Growth
FY1992-93 Actual	586,355,271	690,350,753	102,754,927	145,200,908	1,524,661,859	6.7%
FY1993-94 Actual	648,846,708	722,360,866	113,142,771	169,401,912	1,653,752,257	3.7%
FY1994-95 Actual	683,852,397	746,717,579	123,923,674	150,995,891	1,705,489,541	8.7%
FY1995-96 Actual	711,008,684	846,550,249	126,801,468	152,380,385	1,836,740,786	7.0%
FY1996-97 Actual	755,907,807	944,117,130	137,337,967	172,241,113	2,009,604,017	8.5%
FY1997-98 Actual	803,805,374	981,643,795	142,150,133	177,852,119	2,105,451,422	8.0%
FY1998-99 Actual	744,650,752	1,078,522,994	135,033,658	165,661,901	2,123,869,305	6.7%
FY1999-00 Actual	900,427,469	1,180,363,301	140,021,942	183,111,959	2,403,924,670	7.4%
FY2000-01 Actual	905,023,176	1,233,363,553	138,040,082	180,435,044	2,456,861,855	2.9%
FY2001-02 Actual	918,889,782	1,159,810,647	107,628,074	179,180,246	2,365,508,749	-3.0%
FY2002-03 Actual	1,028,931,065	1,129,421,651	111,597,406	186,449,714	2,456,399,836	-0.5%
FY2003-04 Actual	1,114,374,321	1,249,890,025	167,429,431	187,033,230	2,718,727,007	8.3%
FY2004-05 Actual	1,231,011,089	1,400,076,680	198,380,442	207,726,086	3,037,194,297	9.5%
FY2005-06 Actual	1,263,678,691	1,545,338,061	262,295,456	280,875,316	3,352,187,524	9.9%
FY2006-07 Actual	1,303,826,416	1,650,895,394	213,027,010	240,582,953	3,408,331,773	7.3%
FY2007-08 Actual	1,321,867,139	1,726,145,405	232,851,654	225,298,373	3,506,162,571	7.7%
FY 2008-09 Actual	1,326,161,017	1,600,418,236	198,483,786	232,405,148	3,357,468,187	-4.4%
FY2009-10 Actual	1,289,796,877	1,514,830,114	154,332,137	245,720,545	3,204,679,673	-4.8%
FY2010-11 Actual	1,372,784,033	1,735,208,600	154,944,966	236,717,493	3,499,655,092	9.4%
FY2011-12 Actual	1,436,909,373	1,822,884,254	234,266,238	201,828,916	3,695,888,781	5.5%
FY2012-13 Actual	1,474,942,641	2,101,912,041	275,562,990	199,940,938	4,052,358,610	6.7%
FY 2013-14 NEFAB (April+bills)	1,499,996,000	2,039,395,000	265,000,000	216,296,000	4,020,687,000	2.3%
FY 2014-15 NEFAB (April+bills)	1,552,513,000	2,109,989,000	285,000,000	209,827,000	4,157,329,000	4.6%
FY 2015-16 LFO	1,601,667,000	2,281,593,000	289,000,000	177,627,000	4,349,887,000	5.3%
FY 2016-17 LFO	1,692,094,000	2,466,177,000	292,000,000	159,627,000	4,609,898,000	5.4%
<b><u>AVERAGE GROWTH (adjusted)</u></b>						
Five Yr Financial Status (13 to FY17 Status)	4.3%	5.8%	3.5%	1.4%	4.9%	
Above Average Years (22)	5.7%	9.1%	11.6%	3.6%	7.3%	
Below Average Years (10)	1.2%	2.0%	-7.2%	-0.1%	0.7%	
Historical Average (32 yrs)	4.4%	6.7%	4.6%	1.6%	5.1%	

General Fund Revenue Growth  
(Adjusted for Tax Rate and Base)



# Cash Reserve Fund

	Beginning Balance	Direct Deposit and Interest	Automatic Transfers (1)	Legislative Transfers (2)		Cash Flow	Ending Balance	EB as % of revenues
				Gen Fund	Other Funds			
FY1983-84 Actual	0	37,046,760	na	0	0	0	37,046,760	4.7%
FY1984-85 Actual	37,046,760	(1,472,551)	na	0	0	0	35,574,209	4.5%
FY1985-86 Actual	35,574,209	227,855	na	(13,500,000)	0	0	22,302,064	2.7%
FY1986-87 Actual	22,302,064	1,428,021	na	0	0	0	23,730,085	2.7%
FY1987-88 Actual	23,730,085	1,654,844	na	0	(7,700,000)	0	17,684,929	1.7%
FY1988-89 Actual	17,684,929	139,000	na	32,600,000	0	0	50,423,929	4.4%
FY1989-90 Actual	50,423,929	113,114	na	(10,500,000)	0	0	40,037,043	3.5%
FY1990-91 Actual	40,037,043	0	na	(8,100,000)	0	0	31,937,043	2.3%
FY1991-92 Actual	31,937,043	0	na	(5,000,000)	0	0	26,937,043	1.8%
FY1992-93 Actual	26,937,043	0	na	(9,500,000)	0	0	17,437,043	1.1%
FY1993-94 Actual	17,437,043	0	3,063,462	7,250,000	0	0	27,750,505	1.7%
FY1994-95 Actual	27,750,505	0	(8,518,701)	7,250,000	(6,000,000)	0	20,481,804	1.2%
FY1995-96 Actual	20,481,804	0	(20,481,804)	18,189,565	0	0	18,189,565	1.0%
FY1996-97 Actual	18,189,565	0	19,740,786	3,032,333	0	0	40,962,684	2.0%
FY1997-98 Actual	40,962,684	0	91,621,018	0	0	0	132,583,702	6.3%
FY1998-99 Actual	132,583,702	0	111,616,422	(96,500,000)	(2,000,000)	0	145,700,124	6.9%
FY1999-00 Actual	145,700,124	0	20,959,305	3,500,000	(28,000,000)	0	142,159,429	5.9%
FY2000-01 Actual	142,159,429	0	77,576,670	(24,500,000)	(25,000,000)	0	170,236,099	6.9%
FY2001-02 Actual	170,236,099	0	0	(59,800,000)	(370,000)	0	110,066,099	4.7%
FY2002-03 Actual	110,066,099	66,476,446	0	(87,400,000)	0	(30,000,000)	59,142,545	2.4%
FY2003-04 Actual	59,142,545	59,463,461	0	(61,191,862)	(385,807)	30,000,000	87,028,337	3.2%
FY2004-05 Actual	87,028,337	8,170,556	108,727,007	(26,000,000)	(758,180)	0	177,167,720	5.8%
FY2005-06 Actual	177,167,720	0	261,715,297	0	(165,266,227)	0	273,616,790	8.2%
FY2006-07 Actual	273,616,790	0	259,929,524	(15,674,107)	(1,784,416)	0	516,087,791	15.1%
FY2007-08 Actual	516,087,791	0	191,436,773	(60,177,767)	(101,801,000)	0	545,545,797	15.6%
FY2008-09 Actual	545,545,797	0	116,976,571	(54,990,505)	(29,340,000)	0	578,191,863	17.2%
FY2009-10 Actual	578,191,863	0	0	(105,000,000)	(5,990,237)	0	467,201,626	14.6%
FY2010-11 Actual	467,201,626	0	0	(154,000,000)	0	0	313,201,626	8.9%
FY2011-12 Actual	313,201,626	8,422,528	145,155,092	(37,000,000)	3,560,802	(4,461,676)	428,878,372	11.6%
FY2012-13 Actual	428,878,372	0	104,789,781	(78,000,000)	(76,008,428)	4,461,676	384,121,401	9.5%
FY2013-14 Est	384,121,401	0	285,292,610	53,000,000	(43,015,459)	0	679,398,552	16.9%
FY2014-15 Est	679,398,552	0	0	0	0	0	679,398,552	16.3%
FY2015-16 Est	679,398,552	0	0	0	0	0	679,398,552	15.6%
FY2016-17 Est	679,398,552	0	0	0	0	0	679,398,552	14.7%

(1) Automatic transfers reflect the prior year variance from forecast. For example the \$285.3 million transfer in FY13-14 actually reflects FY12-13 "excess" receipts compared to the certified forecast. Prior to FY95-96 the transfers occurred in all cases. After FY95-96 transfers only occurred if receipts were above forecast.

(2) Legislative transfers are enacted by legislation and include transfers to the General Fund or other funds.

# Projected Budget – FY16/FY17 Following Biennium

For the “following biennium” (FY2015-16 and FY2016-17), the budget numbers reflect the annualized impact of the current budget actions plus an estimate of future year increases in entitlement programs, salary and health insurance increases, and other funding requirements that are normally not optional. It is an estimate based on “current law”, i.e. an estimate of future obligations with no change to underlying law that creates the obligation.

Table 5 Projected Budget Increases-Following Biennium  
(includes on-going impact of 2013 budget actions)

<i>Dollar Changes from FY14 Base Year</i>	Annual % Change			Projected Increases	
	FY16	FY17	2 Yr Avg	FY2015-16	FY2016-17
<b>FY2013-14 Base Appropriation</b>				<b>4,040,892,665</b>	<b>4,040,892,665</b>
EEOS School Aid (TEEOSA)	10.0%	4.2%	7.1%	92,481,992	134,980,867
Special Education	2.5%	2.5%	2.5%	5,344,199	10,822,003
Community Colleges	3.5%	3.5%	3.5%	3,287,488	6,690,038
County Juvenile Services aid	3.0%	3.0%	3.0%	2,000,000	2,000,000
Homestead Exemption	3.0%	3.0%	3.0%	2,247,000	4,561,410
Aid to ESU's	2.5%	2.5%	2.5%	351,294	711,370
Medicaid	8.4%	7.9%	8.1%	64,617,097	130,780,476
Public Assistance	6.0%	6.0%	6.0%	6,490,884	13,371,222
Children's Health Insurance (CHIP)	-50.6%	-36.0%	-43.3%	(11,343,108)	(15,336,949)
Child Welfare Aid	6.0%	6.0%	6.0%	4,166,387	8,457,766
Developmental Disability aid	4.0%	4.0%	4.0%	5,049,932	10,301,861
Behavioral Health aid	-5.7%	3.0%	-1.4%	(3,279,674)	(1,657,737)
ACA Contingency	--	--	--	0	(5,000,000)
Employee Salaries	2.5%	2.5%	2.5%	25,679,265	52,000,513
Employee Health Insurance	10.0%	10.0%	10.0%	15,228,217	31,979,256
Operations increases	2.0%	2.0%	2.0%	5,730,464	11,575,538
Inmate per diem costs	3.0%	3.0%	3.0%	1,367,115	1 2,775,244
ACA implementation (operations)	--	--	--	2,312,500	0
Juvenile Services reform (LB561-2013)	3.0%	3.0%	3.0%	703,176	1,427,447
Construction	--	--	reaffirm only	(1,585,000)	(6,571,000)
All Other			na	(207,963)	(207,963)
<b>Total General Fund Increases (Biennial Basis)</b>	<b>5.5%</b>	<b>4.1%</b>	<b>7.2%</b>	<b>220,641,267</b>	<b>393,661,361</b>
<b>Projected Appropriation per Financial Status</b>				<b>4,261,533,932</b>	<b>4,434,554,026</b>

About 37% the total projected budget increase in the next biennium is TEEOSA school aid as projected under the current statute. General Funds for TEEOSA school aid is projected to increase by 10.0% in FY16 and 4.2% in FY17. The larger growth in FY16 reflects the change in the local effort rate (LER) which returns to \$1.00 after two years at \$1.03 and \$1.025.

Another 32% of the projected increase is in Medicaid with an average growth of 8.1% per year. This reflects projected growth of 4.5% per year for population client eligibility and utilization and 3% per year for provider rates. Also included in this number are annualized impacts of the Affordable Care Act (ACA) as it phases in to full implementation..

The large decline in the Children's Health Insurance program is the result of an expanded federal match rate (23%) from the Affordable Care Act. For FFY2015 to FFY2019 the federal match rate for SCHIP increases from an estimated 68% to 91%

## AID TO LOCAL GOVERNMENTS

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**State Aid to Schools (TEOSA)** The estimates for FY16 and FY17 are based on the same methodology utilized for the November 15 estimates required under current law for the proposed biennial budget but with Fiscal Office assumptions and should be considered Fiscal Office estimates. They are based on the statutory changes made in LB407 as enacted in the 2013 session.. The estimates reflect a growth in overall school aid of 10% in FY16 and 4.2% in FY17.

In the following biennium, TEEOSA aid increases as parts of LB407 expire. Most significant is the local effort rate (LER) which returns to \$1.00 after two years at \$1.03 and \$1.025.

**Special Education:** Increases for FY15-16 and FY16-17 reflect a 2.5% per year increase. Although statute allows for a growth up to 5% the 2.5% is equal to the basic allowable growth rate under the K-12 school spending limitation and TEEOSA calculations.

**Aid to Community Colleges** A 3.5% per year annual increase is included for the following biennium budget reflecting increased state aid to support operations budget increases. This increase amounts to about a \$3.3 million per year increase.

**Homestead Exemption** A 3% per year annual increase is included for the following biennium budget reflecting some level of inflationary increases.

**Aid to ESU's** The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is set at the same rate as the basic allowable growth rate under the K-12 school spending limitation (2.5% per year).

## AID TO INDIVIDUALS

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**Medicaid** For the following biennium, the average growth is 8.1% per year. This reflects projected growth of 4.5% per year for population client eligibility and utilization and 3% per year for provider rates. Also included in this number are annualized impacts of the Affordable Care Act (ACA) as it phases in to full implementation.

**Public Assistance and Child Welfare** A basic growth rate of 6.0% per year is utilized for the various Public Assistance programs for the following biennium. This reflects projected growth of 3% per year for population client eligibility and utilization and 3% per year for provider rates.

**Children's Health Insurance (CHIP)** For the following biennium, a 7.5% per year increase is used which is the same as Medicaid. However the large decline is then the result of an expanded federal match rate (23%) from the Affordable Care Act. For FFY2015 to FFY2019 the federal match rate for SCHIP increases from an estimated 68% to 91%.

**Developmental Disability Aid** A 4% per year increase is included. This provides the equivalent of 2.5% per year for rate equity similar to the employee salary assumption and 1.5% for clients transitioning from K-12 programs. As this projected budget assumes no expanded programs, nothing is assumed for funding of the waiting list.

**Behavioral Health Aid.** This area includes substance abuse and mental health aid. The increases in the following biennium reflect a 3% increase to reflect some annual increase in provider rates. Savings related to insurance coverage for behavioral health under the Affordable Care Act (ACA) go from \$15 million in FY2014-15 to \$20 million in both FY16 and FY17.

**ACA Contingency** The FY14-15 budget included a \$10,000,000 contingency appropriation if budgeted savings in the behavioral health program did not occur as planned. The amount allocated to the ACA Contingency program stays at \$10,000,000 in FY16 and then declines to \$5,000,000 in FY17 and then zero in FY18.

## **AGENCY OPERATIONS / CONSTRUCTION**

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**Employee Salary Increases** Although salary increases will be the result of bargaining, some level of increase is factored in more for illustration than planning purposes. A 2.5% per year increase is included which approximates inflation and the current biennium funding.

**Employee Health Insurance** For planning purposes, a 10% per year increase in health insurance is included for the following biennium. Because rates have been flat for the past several years due to coverage and program changes and drawing down fund balances, this higher growth is utilized to anticipate a potential hike in rates.

**Operations Inflation** Included in the projected status is a general 2% increase in agency non-personnel operating costs. Although not provided as an across the board increase, this amount historically covers increases in utility costs at state and higher education facilities as well as food and other inflationary cost increases at 24/7 state facilities such as veterans homes, BSDC, etc...

**Inmate Per Diem Costs** While some costs at the Dept of Correctional Services such as staffing are "fixed" within a range of inmate population, some costs change directly with each inmate. This includes items such as food, clothing, and medical care. A 3% per year increase is included to reflect both inflationary costs and an increase in the number of inmates.

**Defined Benefit Retirement Plans** The budget incorporated the changes provided in LB553 and assume no change in state funding from the level established in FY14.

**Juvenile Services reform** LB561 passed in the 2013 session made many significant changes in the juvenile justice system. The bill expands the Nebraska Juvenile Service Delivery Project statewide in a three-phase process with the transfer of such funds to take place on July 1, 2013, January 1, 2014, and July 1, 2014. After July 1, 2013, the Office of Juvenile Services within the Dept of Health and Human Services (HHS) will only have responsibility for the Youth Rehabilitation Centers at Kearney and Geneva. The shift of funding includes about \$23 million that had previously been budget under child welfare aid. For purposes here, a 3% per year increase is included in operations for those amounts that had previously been included under child welfare aid.

**Capital Construction** General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on projects funding in the FY14/FY15 biennial budget. These are dollar amounts needed to complete funding of previously approved projects.

# Tax Rate Review Committee



**November 15, 2013**

Required November Meeting Pursuant to Section 77-2715.01

Appropriations Committee Chair  
Executive Board Chair  
Speaker of the Legislature  
Revenue Committee Chair  
Tax Commissioner

Senator Heath Mello  
Senator John Wightman  
Senator Greg Adams  
Senator Galen Hadley  
Kim Conroy

Prepared by the Legislative Fiscal Office

## Statutory Required Meetings

Section 77-2715.01 relates to the Legislature setting the sales and income tax rates and creates the Tax Rate Review Committee and its duties and responsibilities

“(1)(a) Commencing in 1987 the Legislature shall set the rates for the income tax imposed by section 77-2715 and the rate of the sales tax imposed by subsection (1) of section 77-2703. For taxable years beginning or deemed to begin before January 1, 2013, the rate of the income tax set by the Legislature shall be considered the primary rate for establishing the tax rate schedules used to compute the tax.

(b) The Legislature shall set the rates of the sales tax and income tax so that the estimated funds available plus estimated receipts from the sales, use, income, and franchise taxes will be not less than three percent nor more than seven percent in excess of the appropriations and express obligations for the biennium for which the appropriations are made. The purpose of this subdivision is to insure that there shall be maintained in the state treasury an adequate General Fund balance, considering cash flow, to meet the appropriations and express obligations of the state.

(c) For purposes of this section, express obligation shall mean an obligation which has fiscal impact identifiable by a sum certain or by an established percentage or other determinative factor or factors.

2) The Speaker of the Legislature and the chairpersons of the Legislature's Executive Board, Revenue Committee, and Appropriations Committee shall constitute a committee to be known as the Tax Rate Review Committee. The Tax Rate Review Committee shall meet with the Tax Commissioner within ten days after July 15 and November 15 of each year and shall determine whether the rates for sales tax and income tax should be changed. In making such determination the committee shall recalculate the requirements pursuant to the formula set forth in subsection (1) of this section, taking into consideration the appropriations and express obligations for any session, all miscellaneous claims, deficiency bills, and all emergency appropriations. The committee shall prepare an annual report of its determinations under this section. The committee shall submit such report electronically to the Legislature and shall append the tax expenditure report required under section 77-382.

In the event it is determined by a majority vote of the committee that the rates must be changed as a result of a regular or special session or as a result of a change in the Internal Revenue Code of 1986 and amendments thereto, other provisions of the laws of the United States relating to federal income taxes, and the rules and regulations issued under such laws, the committee shall petition the Governor to call a special session of the Legislature to make whatever rate changes may be necessary.”

## Annual Report

LB962 enacted in the 2012 legislative session included a new requirement that the Tax Rate Review Committee prepare an **annual** report of its determinations, submit such report electronically to the Legislature, and append the tax expenditure report required under section 77-382 to such annual report. As the Tax Rate Review Committee meets twice each year, for purposes of this provision the annual report will be prepared after the required November meeting.



# General Fund Financial Status

Table 1 shown below includes the current projected General Fund Financial Status including, for planning purposes, an estimated financial status for the following biennium. Assumptions for construction of the status and estimates for the following biennium are discussed individually later in this report.

Table 1 Projected General Fund Financial Status

	Current Yr FY2012-13	Biennial Budget FY2013-14    FY2014-15		Following Biennium FY2015-16    FY2016-17	
<b>1 BEGINNING BALANCE</b>					
2 Beginning Cash Balance	498,526,356	814,678,170	311,270,170	241,377,302	191,400,611
3 Cash Reserve transfers-automatic	(104,789,781)	(285,292,610)	(46,313,000)	0	0
4 Carryover obligations from FY13	0	(294,932,194)	0	0	0
5 Lapse FY12 / FY13 reappropriations	0	34,979,767	0	0	0
6 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	393,736,575	269,433,133	259,957,170	236,377,302	186,400,611
<b>8 REVENUES</b>					
9 Net Receipts (Oct 2013 NEFAB+Hist Avg)	4,047,001,258	4,067,000,000	4,175,000,000	4,367,000,000	4,628,000,000
10 General Fund transfers-out (current law)	(114,700,000)	(121,300,000)	(116,800,000)	(117,050,000)	(117,050,000)
11 General Fund transfers-in (current law)	in forecast	in forecast	in forecast	0	0
12 Cash Reserve transfers (current law)	78,000,000	(53,000,000)	0	0	0
13 2014 Cash Reserve transfers	0	0	0	0	0
14 2014 General Fund transfers-out	0	0	0	0	0
15 2013 General Fund transfers-in	0	0	0	0	0
16 2014 Revenue Bills	0	0	0	0	0
17 General Fund Net Revenues	4,010,301,258	3,892,700,000	4,058,200,000	4,249,950,000	4,510,950,000
<b>18 APPROPRIATIONS</b>					
19 Appropriations (2013 Session)	3,589,359,663	3,838,168,907	4,040,892,665	4,040,892,665	4,040,892,665
20 Projected budget increases, following biennium	--	--	--	220,641,267	393,661,361
21 2014 Midbiennium Budget Adjustments (request)	0	12,694,056	35,887,203	33,392,759	33,392,759
22 TEEOSA School Aid revisions	0	0	0	0	0
23 2014 State Claims	0	0	0	0	0
24 2014 "A" Bills	0	0	0	0	0
25 General Fund Appropriations	3,589,359,663	3,850,862,963	4,076,779,868	4,294,926,691	4,467,946,785
<b>26 ENDING BALANCE</b>					
27 Dollar ending balance (per Financial Status)	814,678,170	311,270,170	241,377,302	191,400,611	229,403,826
28 Dollar ending balance (at Minimum Reserve)			245,649,686		262,202,252
29 Excess (shortfall) from Minimum Reserve			<b>(4,272,384)</b>		<b>(32,798,426)</b>
30 Biennial Reserve (%)			2.9%		2.6%
<u>General Fund Appropriations</u>					
31 Annual % Change - Appropriations (w/o deficits)	4.7%	5.7%	5.3%	5.5%	4.1%
32 Two Year Average	3.3%	--	5.5%	--	4.8%
<u>General Fund Revenues</u>					
33 Est. Revenue Growth (rate/base adjusted)	6.7%	3.4%	4.0%	5.3%	5.4%
34 Two Year Average	6.1%	--	3.7%	--	5.3%
35 Unadjusted change over prior year	9.6%	0.4%	2.7%	4.6%	6.0%
36 Unadjusted Two Year Average	7.6%	-	1.5%	-	5.3%
37 <u>On-Going Revenues vs Appropriations</u>	217,941,595	94,837,037	(18,579,868)	(44,976,691)	43,003,215
<b>CASH RESERVE FUND</b>	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Projected Unobligated Ending Balance	384,121,401	679,398,552	725,711,552	725,711,552	725,711,552

# Overview

## CHANGES TO THE FINANCIAL STATUS SINCE JULY

The General Fund Financial Status for the FY14/FY15 biennium has actually declined slightly since the July meeting of the Tax Rate Review Committee as shown below.

Table 2 Chronology of the Financial Status

Millions of Dollars	FY 2012-13	FY 2013-14	FY 2014-15	3 Yr Total	FY 2015-16	FY 2016-17	5 Yr Total
<b>July 2013 Tax Rate Review Committee</b>				<b>7.4</b>			<b>10.7</b>
NEFAB Revenue Forecasts (revised Oct 2013)	na	46.3	17.7	64.0	17.1	18.1	99.2
CRF Transfer (FY142 forecast above certified)	na	0.0	(46.3)	(46.3)	0.0	0.0	(46.3)
Change in Minimum Reserve	na	0.0	(0.5)	(0.5)	0.0	(1.0)	(1.5)
<b>October 2013 NEFAB Revised Revenue Forecast</b>				<b>24.6</b>			<b>62.0</b>
FY12 & FY13 appropriation lapse above July est	na	14.7	0.0	14.7	0.0	0.0	14.7
Exclude allocation for deficits	na	5.0	0.0	5.0	0.0	0.0	5.0
2013 Midbiennium Budget Requests (original)	na	(12.7)	(35.9)	(48.6)	(33.4)	(33.4)	(115.4)
TEEOSA School Aid revisions (Oct 2013 Meeting)	na	0.0	0.0	0.0	0.0	0.0	0.0
Change in Minimum Reserve	na	0.0	0.0	0.0	0.0	0.8	0.8
<b>November 2011 Tax Rate Review Committee</b>				<b>(4.3)</b>			<b>(32.8)</b>

### Revenue Forecasts

The FY13-14 and FY14-15 forecasts were revised by the Nebraska Economic Forecast Advisory Board on October 24, 2013. At that meeting, revenue forecasts were increased by a total of \$64 million; \$46.3 million in FY13-14 and \$17.7 million in FY14-15.

With the FY13-14 revenue forecast that was certified in July at \$4,020,687,000, the \$46.3 million increase in the FY14 forecast would be transferred to the Cash Reserve Fund under current law. The \$17.7 million increase in the forecast for FY14-15 would be retained in the General Fund. Even though the dollar amount of the forecasts increased, the derived revenue growth for these two years did not change significantly because the dollar increase in the revised forecasts is very similar to the amount that the FY13 base year actual receipts exceeded the April 2013 forecast.

### Actual FY13 lapsed appropriations

In the July 2013 projected financial status it was estimated conservatively that \$20 million of unexpended General Fund appropriations would expire or lapse. Actual numbers for lapsed appropriations would not be available until the encumbrance process was completed at the end of August. The final calculation of FY13 reappropriations and encumbrances resulted in expired (lapsed) appropriations of \$35 million versus the \$20 million estimate and a like increase in the unobligated beginning balance for FY13-14.

## Updated TEEOSA State Aid Estimate

Section 79-1031 requires the Dept of Education with the assistance of the property tax administrator, Legislative Fiscal Analyst, and DAS-Budget Division to make an estimate of the funding needs for TEEOSA for the next year. At a joint meeting at the end of October, the estimate for FY2013-14 was not significantly altered from the estimate at Sine Die 2013. Actual certified valuations were very close to the April 2013 estimates for which the impact had already been incorporated into the TEEOSA estimate and resulted in a Select File reduction in the previous estimate. There was no new information to warrant a change in the previous estimate of spending growth. These estimates will be further refined in mid-December when the FY13 Annual Financial Report (AFR) from schools are compiled and available. At that point many key areas in calculating TEEOSA formula will be known number not just estimates. This includes school spending and the amount of other school receipts.

Although not required by statute, at that same meeting estimates for the two “out years” were considered. For FY2015-16, higher estimated growth in spending and property valuations mostly offset each other and result in an estimate that does not significantly change. Average projected spending growth increased from 3.5% to 3.72% and reflects the budget to budget growth as compiled for FY13-14. Property valuation growth increased from 4% to 8.4% based preliminary input from county assessors to the Property Assessment division of the state Dept of Revenue (DPAT). The bulk of this valuation growth is in agricultural land and in many cases occurs in non-equalized school districts and not actually “used” in the formula. While valuations are estimated at 8.4%, the growth in the amount of valuation actually used in the formula is 5%.

## 2014 Session Budget Adjustment Requests

Other than the updated TEEOSA numbers, the financial status as shown here includes agency requests for mid-biennium budget adjustments. To date, a two year total of \$48 million of budget requests have been submitted. Although these requests will be subject to the budget review and approval process, these have been incorporated into the financial status here because most of the dollar amount requested is what would be considered traditional “deficits” and in entitlement type programs.

2014 General Fund Requests	FY2013-14	FY2014-15	2 Yr Total
DHHS-Lower FFY2015 Medicaid match (FMAP)	0	16,919,325	16,919,325
Corrections-Inmate medical expenses	4,266,893	4,693,582	8,960,475
DHHS-MAGI Eligibility Rules Under ACA (SCHIP)	1,369,305	2,775,125	4,144,430
DHHS-Behavioral Health Data System	1,530,000	1,470,000	3,000,000
DHHS-Extended Family Home (EFH) Tax Rate	1,184,625	1,191,470	2,376,095
DHHS-State Disabled - Medical (net)	742,200	1,598,100	2,340,300
Corrections-Inmate per diem expenses	1,051,038	1,156,142	2,207,180
DHHS-ACA Section 2101F Population (SCHIP)	440,134	1,665,075	2,105,209
Corrections-Infrastructure and maintenance	0	1,500,000	1,500,000
DHHS-State Ward Permanency Pilot	528,000	528,000	1,056,000
Attorney Gen--Water Litigation	600,000	0	600,000
State Auditor-Restore Appropriations	176,669	176,669	353,338
NETC-Radio transmission replacement project	140,000	140,000	280,000
Education-E-Scholar License Renewal	166,554	166,554	333,108
State Colleges-Contract reporting requirements	164,990	156,990	321,980
Education-Educator Effectiveness Administrator	150,000	150,000	300,000
Historical Society-Storage archeological collection storage	209,994	0	209,994
State Patrol-Medical cost payment	203,889	0	203,889
Education-IT Application Developer Position	0	107,499	107,499
DHHS-Lincoln Regional Center Kitchen project (net)	(884,444)	884,444	0
All Other (net)	654,209	608,228	1,262,437
<b>Total Requests (General Fund Only)</b>	<b>12,694,056</b>	<b>35,887,203</b>	<b>48,581,259</b>

# CASH RESERVE FUND

The higher revenue forecast for FY2013-14 translates into a higher projected balance in the Cash Reserve Fund. The unobligated balance is currently projected to be \$725.7 million at the end of

FY2014-15 compared to the projected balance of \$679 million in July and \$627 million at Sine Die of the 2013 Session.

Table 3 Variance from Revenue Projections

Millions of \$	Projecte	Actual	\$	% Variance	
	d	Receipts		Varianc	Negativ
	Sine Die		e	e	e
FY 1986-87	878.0	886.4	8.4		1.0%
FY 1987-88	924.3	1,016.3	92.0		10.0%
FY 1988-89	988.4	1,133.5	145.1		14.7%
FY 1989-90	1,110.9	1,152.7	41.8		3.8%
FY 1990-91	1,334.6	1,367.1	32.5		2.4%
FY 1991-92	1,493.2	1,490.4	(2.8)	-0.2%	
FY 1992-93	1,537.3	1,524.7	(12.6)	-0.8%	
FY 1993-94	1,662.5	1,653.7	(8.8)	-0.5%	
FY 1994-95	1,729.9	1,706.0	(23.9)	-1.4%	
FY 1995-96	1,834.3	1,836.7	2.4		0.1%
FY 1996-97	1,918.0	2,009.6	91.6		4.8%
FY 1997-98	1,993.8	2,105.4	111.6		5.6%
FY 1998-99	2,102.9	2,123.9	21.0		1.0%
FY 1999-00	2,326.3	2,403.9	77.6		3.3%
FY 2000-01	2,484.3	2,456.8	(27.5)	-1.1%	
FY 2001-02	2,646.0	2,365.5	(280.5)	-10.6%	
FY 2002-03	2,725.7	2,456.4	(269.3)	-9.9%	
FY 2003-04	2,732.0	2,718.7	(13.3)	-0.5%	
FY 2004-05	2,775.5	3,037.2	261.7		9.4%
FY 2005-06	3,092.3	3,352.2	259.9		8.4%
FY 2006-07	3,217.0	3,408.3	191.4		5.9%
FY 2007-08	3,389.2	3,506.1	116.9		3.5%
FY2008-09	3,531.7	3,357.5	(174.3)	-4.9%	
FY2009-10	3,446.7	3,204.7	(242.0)	-7.0%	
FY2010-11	3,422.2	3,499.7	77.4		2.3%
FY2011-12	3,591.1	3,695.9	104.8		2.9%
FY2012-13	3,767.1	4,052.4	285.3		7.6%
FY2013-14 est	4,020.7	4,067.0	46.3		1.2%
FY2014-15 est	4,175.0	?	?	?	?
FY2015-16 est	4,367.0	?	?	?	?
FY2016-17 est	4,628.0	?	?	?	?
FY2016-17 est	na	?	?	?	?
Avg Variance				-4.4%	5.0%

The relatively high balance in the Cash Reserve Fund (CRF) raises the question; is this balance too high? Should the balance be reduced and if so how and how much? This could be the most important question entering into the 2014 Session. There are many competing interests with eyes on what many consider are “excess funds”. To try and address the issue of what should the balance be, we first look at what is the purpose of the Cash Reserve Fund. The major purpose of the fund is to provide protection against forecast errors. Monies are accumulated in the CRF when receipts exceed certified forecast levels and are then available to offset instances when receipts are below forecasts.

The level of “protection” or in other words the level of funds to retain in the Cash Reserve fund, can be derived by looking at historical variances. Table 3 shows the level of variance from revenue forecasts from FY87 through FY13 (27 years). The variance is derived by comparing forecasts at Sine Die of the legislative session when the budget was enacted and actual receipts which are known anywhere

from 13 to 15 months later. Over the 27 year period the average negative variance is -4.4%. Almost as significant is the clustering of the negative and positive variances. It can be seen visually that they cluster in groups of 3 to 4 years.

For simplicity, using a 4% negative variance clustered for four consecutive years would require a balance equal to about 16% of annual net receipts. Applied to the four years of the current “savings” cycle that began in FY11 yields a dollar balance of \$643 million based on projected revenue in FY13-14.

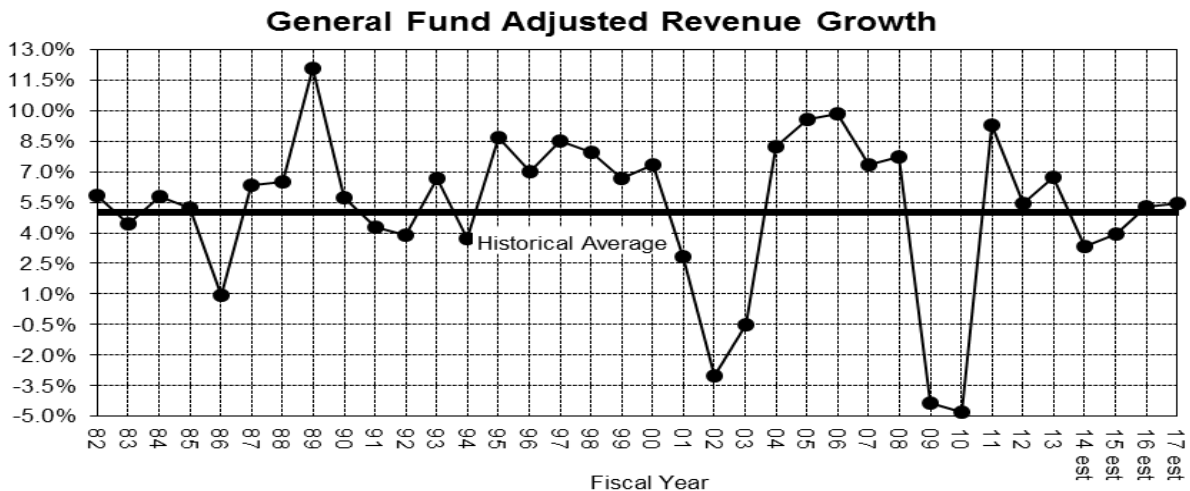
# General Fund Revenues

Revenue estimates for FY2013-14 and FY2014-15 are the October 2013 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). These forecasts yield a projected adjusted revenue growth of 3.4% in FY13-14 and 4.0% in FY14-15, an average growth of 3.7%. While this two year growth is below the 5% historical average, the average growth for the three prior three years was 7.2%.

For the following biennium or what's commonly referred to as the "out years", the preliminary estimates for FY2015-16 and FY2016-17 are prepared by the Legislative Fiscal Office (LFO) using the "capped" historical average methodology. This "smoothing" technique derives a revenue growth for the "out years" by calculating the level of revenues that would yield a five year average growth (FY12 to FY17) roughly equal to the historical average from FY81 to FY13 (5.1%). Under this method, revenue growth for the two years would average 5.3%.

Table 4 - General Fund Revenue Forecasts

	Actual FY2012-13	NEFAB FY2013-14	NEFAB FY2014-15	LFO Prelim FY2015-16	LFO Prelim FY2016-17
<b>Actual/Forecast</b>					
Sales and Use Tax	1,474,942,641	1,510,000,000	1,560,000,000	1,610,000,000	1,692,000,000
Individual Income Tax	2,101,912,041	2,085,000,000	2,152,000,000	2,303,000,000	2,476,000,000
Corporate Income Tax	275,562,990	255,000,000	263,000,000	278,000,000	296,000,000
Miscellaneous receipts	199,940,938	217,000,000	200,000,000	176,000,000	164,000,000
<b>Total General Fund Revenues</b>	<b>4,052,358,610</b>	<b>4,067,000,000</b>	<b>4,175,000,000</b>	<b>4,367,000,000</b>	<b>4,628,000,000</b>
<b>Adjusted Growth</b>					
Sales and Use Tax	4.9%	4.5%	4.5%	4.1%	3.7%
Individual Income Tax	8.0%	3.9%	3.9%	6.5%	7.0%
Corporate Income Tax	9.0%	-6.5%	4.8%	5.8%	6.5%
Miscellaneous receipts	5.4%	3.6%	-0.6%	0.5%	0.5%
<b>Total General Fund Revenues</b>	<b>6.7%</b>	<b>3.4%</b>	<b>4.0%</b>	<b>5.3%</b>	<b>5.4%</b>
Two Yr Average	6.1%	-	3.7%	-	5.3%
Five Yr Average	2.4%	--	5.8%	--	5.1%



# General Fund Appropriations

REFERENCES TO APPROPRIATIONS IN THIS SECTION DO NOT REFLECT BUDGET ACTIONS THAT MIGHT TAKE PLACE DURING THE 2014 SESSION INCLUDING REVISED TEEOSA SCHOOL AID ESTIMATES.

## Enacted Budget – FY14/FY15 Current Biennium:

The appropriations for the current biennium are the amounts enacted during the 2013 legislative session and reflected a budget growth of 5.7% in FY13-14 and 5.3% in FY14-15.

## Projected Budget – FY16/FY17 Following Biennium

For the “following biennium” (FY2015-16 and FY2016-17), the budget numbers reflect the annualized impact of the current budget actions plus an estimate of future year increases in entitlement programs, salary and health insurance increases, and other funding requirements that are normally not optional. It is an estimate based on “current law”, i.e. an estimate of future obligations with no change to underlying law that creates the obligation.

Table 5 Projected Budget Increases-Following Biennium  
(includes on-going impact of 2013 budget actions)

<i>Dollar Changes from FY14 Base Year</i>	Annual % Change			Projected Increases	
	FY16	FY17	2 Yr Avg	FY2015-16	FY2016-17
<b>FY2013-14 Base Appropriation</b>				<b>4,040,892,665</b>	<b>4,040,892,665</b>
TEEOS School Aid (TEEOSA)	10.0%	4.2%	7.1%	92,481,992	134,980,867
Special Education	2.5%	2.5%	2.5%	5,344,199	10,822,003
Community Colleges	3.5%	3.5%	3.5%	3,287,488	6,690,038
County Juvenile Services aid	3.0%	3.0%	3.0%	2,000,000	2,000,000
Homestead Exemption	3.0%	3.0%	3.0%	2,247,000	4,561,410
Aid to ESU's	2.5%	2.5%	2.5%	351,294	711,370
Medicaid	8.4%	7.9%	8.1%	64,617,097	130,780,476
Public Assistance	6.0%	6.0%	6.0%	6,490,884	13,371,222
Children's Health Insurance (CHIP)	-50.6%	-36.0%	-43.3%	(11,343,108)	(15,336,949)
Child Welfare Aid	6.0%	6.0%	6.0%	4,166,387	8,457,766
Developmental Disability aid	4.0%	4.0%	4.0%	5,049,932	10,301,861
Behavioral Health aid	-5.7%	3.0%	-1.4%	(3,279,674)	(1,657,737)
ACA Contingency	--	--	--	0	(5,000,000)
Employee Salaries	2.5%	2.5%	2.5%	25,679,265	52,000,513
Employee Health Insurance	10.0%	10.0%	10.0%	15,228,217	31,979,256
Operations increases	2.0%	2.0%	2.0%	5,730,464	11,575,538
Inmate per diem costs	3.0%	3.0%	3.0%	1,367,115	1 2,775,244
ACA implementation (operations)	--	--	--	2,312,500	0
Juvenile Services reform (LB561-2013)	3.0%	3.0%	3.0%	703,176	1,427,447
Construction	--	-- reaffirm only		(1,585,000)	(6,571,000)
All Other			na	(207,963)	(207,963)
<b>Total General Fund Increases (Biennial Basis)</b>	<b>5.5%</b>	<b>4.1%</b>	<b>5.8%</b>	<b>220,641,267</b>	<b>393,661,361</b>
<b>Projected Appropriation per Financial Status</b>				<b>4,261,533,932</b>	<b>4,434,554,026</b>

About 37% the total projected budget increase in the next biennium is TEEOSA school aid as projected under the current statute. General Funds for TEEOSA school aid is projected to increase by 10.0% in FY16 and 4.2% in FY17. The larger growth in FY16 reflects the change in the local effort rate (LER) which returns to \$1.00 after two years at \$1.03 and \$1.025.

Another 32% of the projected increase is in Medicaid with an average growth of 8.1% per year. This reflects projected growth of 4.5% per year for population client eligibility and utilization and 3% per year for provider rates. Also included in this number are annualized impacts of the Affordable Care Act (ACA) as it phases in to full implementation..

The large decline in the Children's Health Insurance program is the result of an expanded federal match rate (23%) from the Affordable Care Act. For FFY2015 to FFY2019 the federal match rate for SCHIP increases from an estimated 68% to 91%

## AID TO LOCAL GOVERNMENTS

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**State Aid to Schools (TEEOSA):** The estimates for FY16 and FY17 are based on the same methodology utilized for the November 15 estimates required under current law for the proposed biennial budget but with Fiscal Office assumptions and should be considered Fiscal Office estimates. They are based on the statutory changes made in LB407 as enacted in the 2013 session.. The estimates reflect a growth in overall school aid of 10% in FY16 and 4.2% in FY17.

In the following biennium, TEEOSA aid increases as parts of LB407 expire. Most significant is the local effort rate (LER) which returns to \$1.00 after two years at \$1.03 and \$1.025.

**Special Education:** Increases for FY15-16 and FY16-17 reflect a 2.5% per year increase. Although statute allows for a growth up to 5% the 2.5% is equal to the basic allowable growth rate under the K-12 school spending limitation and TEEOSA calculations.

**Aid to Community Colleges:** A 3.5% per year annual increase is included for the following biennium budget reflecting increased state aid to support operations budget increases. This increase amounts to about a \$3.3 million per year increase.

**Homestead Exemption:** A 3% per year annual increase is included for the following biennium budget reflecting some level of inflationary increases.

**Aid to ESU's:** The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is set at the same rate as the basic allowable growth rate under the K-12 school spending limitation (2.5% per year).

## AID TO INDIVIDUALS

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**Medicaid:** For the following biennium, the average growth is 8.1% per year. This reflects projected growth of 4.5% per year for population client eligibility and utilization and 3% per year for provider rates. Also included in this number are annualized impacts of the Affordable Care Act (ACA) as it phases in to full implementation.

**Public Assistance and Child Welfare:** A basic growth rate of 6.0% per year is utilized for the various Public Assistance programs for the following biennium. This reflects projected growth of 3% per year for population client eligibility and utilization and 3% per year for provider rates.

**Children's Health Insurance (CHIP):** For the following biennium, a 7.5% per year increase is used which is the same as Medicaid. However the large decline is then the result of an expanded federal match rate (23%) from the Affordable Care Act. For FFY2015 to FFY2019 the federal match rate for SCHIP increases from an estimated 68% to 91%.

**Developmental Disability Aid:** A 4% per year increase is included. This provides the equivalent of 2.5% per year for rate equity similar to the employee salary assumption and 1.5% for clients transitioning from K-12 programs. As this projected budget assumes no expanded programs, nothing is assumed for funding of the waiting list.

**Behavioral Health Aid:** This area includes substance abuse and mental health aid. The increases in the following biennium reflect a 3% increase to reflect some annual increase in provider rates. Savings related to insurance coverage for behavioral health under the Affordable Care Act (ACA) go from \$15 million in FY2014-15 to \$20 million in both FY16 and FY17.

**ACA Contingency:** The FY14-15 budget included a \$10,000,000 contingency appropriation if budgeted savings in the behavioral health program did not occur as planned. The amount allocated to the ACA Contingency program stays at \$10,000,000 in FY16 and then declines to \$5,000,000 in FY17 and then zero in FY18.

## **AGENCY OPERATIONS / CONSTRUCTION**

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**Employee Salary Increases:** Although salary increases will be the result of bargaining, some level of increase is factored in more for illustration than planning purposes. A 2.5% per year increase is included which approximates inflation and the current biennium funding.

**Employee Health Insurance:** For planning purposes, a 10% per year increase in health insurance is included for the following biennium. Because rates have been flat for the past several years due to coverage and program changes and drawing down fund balances, this higher growth is utilized to anticipate a potential hike in rates.

**Operations Inflation:** Included in the projected status is a general 2% increase in agency non-personnel operating costs. Although not provided as an across the board increase, this amount historically covers increases in utility costs at state and higher education facilities as well as food and other inflationary cost increases at 24/7 state facilities such as veterans homes, BSDC, etc...

**Inmate Per Diem Costs:** While some costs at the Dept of Correctional Services such as staffing are "fixed" within a range of inmate population, some costs change directly with each inmate. This includes items such as food, clothing, and medical care. A 3% per year increase is included to reflect both inflationary costs and an increase in the number of inmates.

**Defined Benefit Retirement Plans:** The budget incorporated the changes enacted through LB553 (2013) and assume no change in state funding from the level established in FY14.



**Juvenile Services reform:** LB561 passed in the 2013 session made many significant changes in the juvenile justice system. The bill expands the Nebraska Juvenile Service Delivery Project statewide in a three-phase process with the transfer of such funds to take place on July 1, 2013, January 1, 2014, and July 1, 2014. After July 1, 2013, the Office of Juvenile Services within the Dept of Health and Human Services (HHS) will only have responsibility for the Youth Rehabilitation Centers at Kearney and Geneva. The shift of funding includes about \$23 million that had previously been budget under child welfare aid. For purposes here, a 3% per year increase is included in operations for those amounts that had previously been included under child welfare aid.

**Capital Construction:** General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on projects funding in the FY14/FY15 biennial budget. These are dollar amounts needed to complete funding of previously approved projects.