

TAX RATE REVIEW
November 15, 2013

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The Tax Rate Review Committee met at 11:15 a.m. on Friday, November 15, 2013, in Room 1003 of the State Capitol, Lincoln, Nebraska. Senators present: John Wightman, Chairperson; Greg Adams; Galen Hadley; and Heath Mello. Others present: Mike Calvert; Kim Conroy; and Patrick O'Donnell.

SENATOR WIGHTMAN: It is a little past 11:15, and so I think we'll go ahead and begin our meeting. As defined by statute, the Tax Rate Review Committee meets every July and November as set in law. And procedurally, the Executive Board Chair has been the one acting as the Chair of the committee. So first of all, good afternoon...good morning, everybody. It'll be afternoon shortly. And we're glad to have you all here and hear what we do. I think our information will be very favorable. So at any rate, we're meeting today to hear from the Fiscal Analyst and learn where we are. And I think probably very little action will be taken. But go ahead, Mike.

MICHAEL CALVERT: (Exhibit 1) Okay. Michael Calvert, Legislative Fiscal Analyst. The report that we sent to you is dated November 15. It also included a draft cover letter that is an annual report. There was legislation passed in 2012, LB962, that requires an annual report. What we'll do is we'll attach this report plus the July report and a brief cover letter. The draft, I just had a couple minor changes. I did not make additional copies, but at the bottom paragraph there was a reference to a Web address. I altered the Web address to the correct Web address and then changed the 2012 report to just the most recent because that's the way it's displayed on the Department of Revenue's Web site. So with those changes, I'll file that after the completion of this meeting. The report that we provided you is a General Fund outlook for the current budget biennium and for the next biennium. It's probably easiest to go to page 3 of the report because that tracks the changes since your last meeting in July. When the Tax Rate Review Committee met in July, we provided you a General Fund financial status that showed through the current budget biennium a General Fund balance that exceeded the

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minimum reserve by about \$7.4 million, and you can see that at the chart at the top of page 3. Since that time, several things have occurred. The Forecast Board met and you'll recall there were revenue changes to the current fiscal year, next fiscal year, and that's in the next line down that showed the revenue estimate for the current fiscal year was raised \$46.3 million and then the second year by \$17.7 million. By operation of current law, the revenue increase to the current year, if that occurs, will flow to the Cash Reserve Fund, and you'll see that on the next line where it says "CRF Transfer." That's the forecast above certified. So that \$46.3 million will go to the Cash Reserve Fund. What does stay in the General Fund is the \$17 million adjusted for a minor correction with respect to how our reserve is calculated. So as of October after the Forecast Board meeting, we were looking at a balance that exceeded minimum reserve by about \$24.6 million. Since that time, we've made some additional adjustments driven by the budget process. We have estimates for a lapse, in other words, that portion of the General Fund expenditures that expire. I think we had a \$20 million estimate the last time we cast the status. And those numbers are not finalized until late August. It turned out to be closer to \$35 million, so we made an adjustment; \$14.7 million flows to the General Fund bottom line for appropriations that expire, if you will. Then we have budget requests that have been submitted. What we've done here is said, here's the budget requests, General Fund impact, we're incorporating the total dollar amount in this status just to give you an illustration as to the impact. In all likelihood, they all won't be funded. But just for illustration purposes, \$12.7 million and \$35.9 million are the total requests that are before us. If you consider those as additions, we have been carrying a \$5 million allocation just to cover deficits for this current session that will be coming forward. You don't need that anymore because now we have actual requests. We just substituted one for the other. So all told, after you make those adjustments, our Tax Rate Review Committee report goes from a \$7.4 million as of last July above the minimum reserve to about \$4.3 million. So very little movement overall but some individual transactions that are important. We carry forward those estimates going into the next biennium so there's a little bit of a shift there in terms of impact. But all of that is all subject to a couple revenue forecasts and a whole new budget process to start in the

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next 2015 Legislative Session. So that's the general outlook. Again, in all likelihood, expenditure appropriations, the deficit adjustments will probably not be of the magnitude as the request. The General Fund financial status that depicts all of these changes is on page 2, so that follows the general format that you're accustomed to. There is one correction on page 7 where we project future estimates, General Fund appropriations into the next biennium. On page 7 you'll see, next to the last line, "Total General Fund Increases" on a biennial basis. You'll see 5.5 percent, 4.1 percent, and where it shows the two-year average at 5.8--mathematical error--4.8. So if you...

SENATOR WIGHTMAN: The 5.8 should be 4.8.

MICHAEL CALVERT: It should be 4.8. So that's the average for the two-year period. So, our error, and it's been a persistent error, too, according to Senator Mello. (Laugh) So with that correction, one additional item that is in the report is on page 5 dealing with the Cash Reserve Fund. There has been a great deal of conversation about what is a desirable level in terms of a Cash Reserve Fund balance. This is essentially the same material that we provided the Tax Modernization Committee in their last meeting, I think, November 1. And it walks through a rationale as to what might theoretically be a reasonable Cash Reserve Fund balance. The last paragraph really kind of synthesizes that, based on the methodology, about \$640 million, based on projected revenue in '13-14, constitutes a reasonable Cash Reserve Fund balance. The methodology is just based on forecasting error. There is a repetition and there is an average error of a little over 4 percent in terms of overestimating in those time periods where revenues fall short. If you apply that to a four-year consecutive period where revenues are...the revenue error is, in fact, negative, you come up with about 16 percent of an annual budget, which converts to about \$643 million in current terms. So it gives you a rule of thumb or some guidance. Is it going to be totally adequate? I really don't know. I suspect not. But my characterization has always been, it will mitigate the need for budget cuts and tax increases at some future date. And if you look at the cyclical pattern, the way things group on about a four-year cycle, we're in the midst of the fourth

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year. Can I predict absolutely that that cycle is going to reverse itself? I cannot. But there is a historical pattern that seems to suggest that some care and some caution is probably in order. And that's all I have.

SENATOR WIGHTMAN: But based upon what you've told us today, you don't see any need for any kind of a tax increase.

MICHAEL CALVERT: No. If you look at the projections for the current biennium and the next biennium, within a reasonable margin, revenues and expenditures, current revenues and current expenditures match up pretty well.

SENATOR WIGHTMAN: Okay. Anybody have any comments?

SENATOR MELLO: Do we need a motion to...?

SENATOR WIGHTMAN: To take no action.

SENATOR HADLEY: Take no action.

SENATOR MELLO: I move that we take no action at this time.

SENATOR HADLEY: Second.

SENATOR WIGHTMAN: Okay. It's been moved and seconded that we take no action at this time as far as amending our budget. Let's do a roll call vote.

NATALIE SCHUNK: Senator Wightman.

SENATOR WIGHTMAN: Yes.

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NATALIE SCHUNK: Senator Hadley.

SENATOR HADLEY: Yes.

NATALIE SCHUNK: Commissioner Conroy.

KIM CONROY: Yes.

NATALIE SCHUNK: Senator Adams.

SENATOR ADAMS: Yes.

NATALIE SCHUNK: Senator Mello.

SENATOR MELLO: Yes.

SENATOR WIGHTMAN: Motion carried. And with that, I think we'll adjourn the meeting.