

# State of Nebraska

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

November 17, 2017

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

Dear Mr. O'Donnell:

As required by R.S. Supp. 2016, 77-2715.01(2), 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 2017.

The attachments are reports reviewed by the Committee on July 17, 2017 and November 16, 2017. At each meeting, the Committee determined 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. 2016, 77-382. The most recent report may be accessed at the following web address:  
[http://www.revenue.nebraska.gov/research/tax\\_esp-reports.html](http://www.revenue.nebraska.gov/research/tax_esp-reports.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 cursive script, appearing to read "Michael Calvert".

Michael Calvert  
Legislative Fiscal Analyst

2017 Tax Rate Review letter to Patrick

Attachments



# **TAX RATE REVIEW COMMITTEE**

**July 17, 2017**

**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 John Stinner  
Senator Dan Watermeier  
Senator Jim Scheer  
Senator Jim Smith  
Tony Fulton**

**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 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 FY2016-17 were \$34.2 million below the forecast used at Sine Die of the 2017 Session which was the April 2017 forecast of the Nebraska Economic Forecast Advisory Board (NEFAB). There were no revenue bills enacted in the 2017 Session affecting FY16-17.

2. Tax rate and base adjusted revenue growth for FY2016-17 actual receipts is 0.3% compared to the 1.0% growth calculated per the April forecast. Nominal (actual unadjusted) change from the prior year is -1% or \$42.2 million less than the prior year.

The difference is attributed to the adjustments including higher Nebraska Advantage Act (and LB775) sales tax refunds (\$33 million), Amazon.com sales tax (\$11.2 million), lower fund lapses (\$10.8 million), and change in withholding (\$12.9 million).

3. The projected General Fund financial status for the current biennium declines with the projected ending balance going from \$45.4 million above the minimum reserve to \$22.8 million above the minimum reserve. Note that for the FY18/FY19 biennium, the minimum reserve is statutorily set at 2.5%, returning to 3% in the FY20/FY21 biennium.

This \$22 million decline was due to FY17 actual receipts being \$34.2 million below forecast, reductions due to accounting adjustments (\$3.2 million) and impact of carryover obligations on the calculation of the reserve (\$5.3 million) partially offset by a \$20 million projected lapse of unexpended appropriations.

4. The Cash Reserve Fund is projected at an unobligated balance of \$369.1 million taking into consideration transfers that are authorized for the State Capitol HVAC to FY2020-21. This is same as estimated at Sine Die 2017.

5. The current status is based on the existing revenue forecast for FY2017-18 and FY2018-19. The NEFAB will not meet to evaluate this existing FY17-18 and FY18-19 revenue forecasts until October. With the lower adjusted growth in FY16-17 actual receipts (.3% vs 1.0% growth), the FY17-18 calculated growth is now 5.6% with the existing forecast compared to the Sine Die estimate of 4.9%. With no change in either FY18 or FY19 there is no change in the FY18-19 calculated adjusted growth of 5.2%

6. The projected financial status for the following biennium, FY2019-20 and FY2020-21, now shows a variance from the minimum reserve of a positive \$188.3 million compared to the Sine Die estimated \$203.1 million. This revised shortfall figure only reflects the decline in the FY2016-17 revenues and does not yet reflect any potential changes in the FY18, FY19, FY20 or FY21 revenue numbers in light of the lower FY16-17 base.

# Current General Fund Financial Status

## (With FY2016-17 Actual Revenue & Expenditures)

	Actual FY2016-17	Biennial Budget FY2017-18      FY2018-19		Following Biennium FY2019-20      FY2020-21	
<b>1 BEGINNING BALANCE</b>					
2 Beginning Cash Balance	531,652,199	247,728,174	106,721,159	250,991,382	312,199,985
3 Cash Reserve transfers-above certified prior yr	0	0	0	0	0
4 Unexpended FY16-17 obligations	0	(253,451,399)	0	0	0
5 Est lapse FY17 carryover obligations	0	20,000,000	0	0	0
6 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	531,652,199	14,276,775	101,721,159	245,991,382	307,199,985
<b>8 REVENUES</b>					
9 Net Receipts (Actual and Sine Die Adjusted)	4,265,771,947	4,605,427,000	4,798,456,000	5,029,000,000	5,333,000,000
10 General Fund transfers-out	(217,100,000)	(234,970,000)	(233,770,000)	(232,500,000)	(232,500,000)
11 General Fund transfers-in	in actual	in forecast	in forecast	0	0
12 Cash Reserve transfers-legislative	0	125,000,000	48,000,000	0	0
13 Accounting adjustment	(3,165,210)	0	0	0	0
14 General Fund Net Revenues	4,045,506,737	4,495,457,000	4,612,686,000	4,796,500,000	5,100,500,000
<b>15 APPROPRIATIONS</b>					
16 Expenditures/Appropriations	4,329,430,762	4,398,012,616	4,463,415,777	4,463,415,777	4,463,415,777
17 Projected budget increase, following biennium	--	--	--	266,875,620	462,455,898
18 Budget adjustments (2018 Session)	0	5,000,000	0	0	0
19 "A" Bills (2018 Session)	0	0	0	0	0
20 General Fund Appropriations	4,329,430,762	4,403,012,616	4,463,415,777	4,730,291,397	4,925,871,675
<b>21 ENDING BALANCE</b>					
22 \$ Ending balance (Financial Status as shown)	247,728,174	106,721,159	250,991,382	312,199,985	481,828,310
23 \$ Ending balance (at Min. Reserve 2.5% FY19 only)	--	--	228,191,980	--	295,572,565
24 Excess (shortfall) from Minimum Reserve	--	--	22,799,402	--	186,255,745
25 Biennial Reserve (%)	--	--	2.8%	--	5.0%
<b>26 General Fund Budget</b>					
27 Annual % Change	3.3%	-0.3%	1.5%	6.0%	4.1%
28 Two Year Average % Change	3.7%	--	0.6%	--	5.1%
<b>29 General Fund Revenues:</b>					
30 Adjusted Growth	0.3%	5.6%	5.2%	6.1%	6.1%
31 Two Year Average	0.3%	--	5.4%	--	6.1%
32 Five Year Average	4.8%	--	4.2%	--	4.7%
33 Structural Revenues vs Appropriations	(283,924,025)	(32,555,616)	101,270,223	66,208,603	174,628,325

<b>CASH RESERVE FUND</b>	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Beginning Balance	730,655,107	680,655,107	437,574,335	379,569,206	379,569,206
Excess of certified forecasts (line 3 in Status)	0	0	0	0	0
To/from Gen Fund per current law	0	(125,000,000)	(48,000,000)	0	0
To Nebr Capital Construction Fund (NCCF)	0	(118,230,772)	(10,005,129)	0	(10,431,585)
To/From Oral Health Training and Services Fund	0	150,000	0	0	0
To Military Installation Infrastructure	0	0	0	0	0
To Transportation Infrastructure Fund	(50,000,000)	0	0	0	0
Ending Balance - Current Status	680,655,107	437,574,335	379,569,206	379,569,206	369,137,621

# Changes in the Financial Status since Sine Die 2017

(millions of dollars)	FY18/FY19 Biennium	FY20/FY21 Biennium
<b>1. Variance: Sine Die 2017 -----&gt;</b>	<b>45,413,695</b>	<b>203,093,964</b>
2. Carryover obligations from FY15-16	0	
3. FY17 Actual vs Est General Fund Net Receipts	(34,228,053)	(34,228,053)
4. FY17 Actual vs Est Transfers-Out	0	0
5. FY17 Actual vs Est Transfers-In	50,000	50,000
6. FY17 Actual vs Est Accounting adjustment	(3,165,210)	(3,165,210)
7. Rounding on revenue numbers	(101)	(101)
8. Assumed lapse, FY17 unexpended	20,000,000	20,000,000
9. Recalculate minimum reserve	(5,270,928)	446,894
10. Total \$ Change Since Sine Die	(22,614,292)	(16,896,470)
<b>11. Current Financial Status -----&gt;</b>	<b>24,799,402</b>	<b>188,197,494</b>

### Accounting Adjustments:

Some of the "accounting adjustments" are transfers-out that are authorized in statute but not in specific amounts such as legislatively enacted transfers or occur on a deficit basis like the Dept. of Revenue tax enforcement transfer per tax amnesty legislation.

Transfer-Out Fund 21540 & 21541 Dept. of Revenue enforcement	(750,000)
Transfer-Out to Mutual Finance Assistance Fund, cash flow	(1,872,150)
Transfer-Out State Patrol drug purchases	(64,417)
All other accounting adjustments	(478,643)
Total Accounting adjustment	(3,165,210)

### Lapse of Unexpended FY2016-17 Funds

There was not a general reappropriation of all unexpended General Fund appropriations for operations. For operations and aid, all unexpended appropriations expire except where specifically reappropriated. In all cases, encumbered funds (where the obligation has been incurred but payment not yet made) are reappropriated.

At the present time, the financial status includes an estimated \$20 million of lapsed appropriation authority. This is a relatively conservative number after a review of unexpended balances by individual budget program. A significant amount is a presumed lapse of some unexpended DHHS aid funds. As noted earlier, the actual amount will not be known until late August and the actual lapses will be incorporated at that time.



# FY2016-17 Actual General Fund Receipts

Table 1 compares the various forecasts with actual receipts for FY2016-17. Table 2 shows actual receipts and adjusted growth for FY2016-17 and the previous five years, Table 3 shows a chronology of the FY2016-17 forecasts and Table 4 provides historical revenues and adjusted growth rates.

**Table 1 FY2016-17 Actual Receipts vs Forecast**

	Cert July 2016 FY2016-17	Oct 2016 FY2016-17	Feb 2016 FY2016-17	April 2016 FY2016-17	Actual YTD FY2016-17	\$ Variance Cert July 2016	\$ Variance Oct 2016	\$ Variance Feb 2016	\$ Variance April 2016
<b>GROSS RECEIPTS</b>									
Sales and Use	2,201,916,000	2,192,837,000	2,200,259,000	2,177,484,000	2,171,815,345	(30,100,655)	(21,021,655)	(28,443,655)	(5,668,655)
Individual Income	2,859,670,000	2,782,297,000	2,729,016,000	2,724,335,000	2,658,320,142	(201,349,858)	(123,976,858)	(70,695,858)	(66,014,858)
Corporate Income	360,224,000	309,120,000	300,411,000	297,682,000	317,877,308	(42,346,692)	8,757,308	17,466,308	20,195,308
Miscellaneous	223,040,000	220,072,000	220,066,000	225,075,000	228,108,875	5,068,875	8,036,875	8,042,875	3,033,875
<b>Total Gross Receipts</b>	<b>5,644,850,000</b>	<b>5,504,326,000</b>	<b>5,449,752,000</b>	<b>5,424,576,000</b>	<b>5,376,121,671</b>	<b>(268,728,329)</b>	<b>(128,204,329)</b>	<b>(73,630,329)</b>	<b>(48,454,329)</b>
<b>REFUNDS &amp; CREDITS</b>									
City Sales Tax	401,994,000	411,148,000	413,312,000	411,305,000	410,163,428	8,169,428	(984,572)	(3,148,572)	(1,141,572)
State Sales and Use	106,041,000	111,558,000	132,348,000	132,546,000	129,249,901	23,208,901	17,691,901	(3,098,099)	(3,296,099)
Sales tax to Highway Funds	77,122,000	75,424,000	74,773,000	73,837,000	74,054,661	(3,067,339)	(1,369,339)	(718,339)	217,661
CSI Turnback	9,648,000	9,707,000	9,826,000	9,796,000	9,958,507	310,507	251,507	132,507	162,507
Individual Income	432,467,000	437,297,000	439,016,000	439,335,000	433,480,089	1,013,089	(3,816,911)	(5,535,911)	(5,854,911)
Corporate Income	50,224,000	64,120,000	65,411,000	57,684,000	53,437,595	3,213,595	(10,682,405)	(11,973,405)	(4,246,405)
Miscellaneous	116,000	72,000	66,000	73,000	5,544	(110,456)	(66,456)	(60,456)	(67,456)
<b>Total Refunds/Credits</b>	<b>1,077,612,000</b>	<b>1,109,326,000</b>	<b>1,134,752,000</b>	<b>1,124,576,000</b>	<b>1,110,349,724</b>	<b>32,737,724</b>	<b>1,023,724</b>	<b>(24,402,276)</b>	<b>(14,226,276)</b>
<b>NET RECEIPTS</b>									
Sales and Use	1,607,111,000	1,585,000,000	1,570,000,000	1,550,000,000	1,548,388,849	(58,722,151)	(36,611,151)	(21,611,151)	(1,611,151)
Individual Income	2,427,203,000	2,345,000,000	2,290,000,000	2,285,000,000	2,224,840,053	(202,362,947)	(120,159,947)	(65,159,947)	(60,159,947)
Corporate Income	310,000,000	245,000,000	235,000,000	239,998,000	264,439,713	(45,560,287)	19,439,713	29,439,713	24,441,713
Miscellaneous	222,924,000	220,000,000	220,000,000	225,002,000	228,103,332	5,179,332	8,103,332	8,103,332	3,101,332
<b>Total Net Receipts</b>	<b>4,567,238,000</b>	<b>4,395,000,000</b>	<b>4,315,000,000</b>	<b>4,300,000,000</b>	<b>4,265,771,947</b>	<b>(301,466,053)</b>	<b>(129,228,053)</b>	<b>(49,228,053)</b>	<b>(34,228,053)</b>
<b>ADJUSTED GROWTH</b>									
Total GF Revenues	7.4%	3.4%	1.3%	1.0%	0.3%	na	na	na	na

	Cert July 2016 FY2016-17	Oct 2016 FY2016-17	Feb 2016 FY2016-17	April 2016 FY2016-17	Actual YTD FY2016-17	\$ Variance Cert July 2016	\$ Variance Oct 2016	\$ Variance Feb 2016	\$ Variance April 2016
<b>TOTAL BY MONTH</b>									
July	253,766,000	234,585,213	234,585,213	234,585,213	234,585,213	(19,180,787)	0	0	0
August	408,951,000	410,484,016	410,484,016	410,484,016	410,484,016	1,533,016	0	0	0
September	461,717,000	437,022,598	437,022,598	437,022,598	437,022,598	(24,694,402)	(0)	(0)	(0)
October	248,915,000	233,405,000	233,404,182	233,404,182	233,404,182	(15,510,818)	(818)	(0)	(0)
November	381,391,000	377,207,000	358,594,439	358,594,439	358,594,439	(22,796,561)	(18,612,561)	0	0
December	385,839,000	374,599,000	342,069,150	342,069,150	342,069,150	(43,769,850)	(32,529,850)	(0)	(0)
January	398,898,000	379,593,000	376,472,404	376,472,404	376,472,404	(22,425,596)	(3,120,596)	0	0
February	283,221,000	282,127,000	267,168,525	267,168,525	267,168,525	(16,052,475)	(14,958,475)	0	0
March	348,096,000	337,522,000	302,750,000	326,793,000	326,793,056	(21,302,944)	(10,728,944)	24,043,056	56
April	553,536,000	513,578,000	533,348,000	477,845,000	477,844,853	(75,691,148)	(35,733,148)	(55,503,148)	(148)
May	395,387,000	390,368,000	399,652,000	410,798,000	401,525,307	6,138,307	11,157,307	1,873,307	(9,272,693)
June	447,521,000	424,509,173	419,450,473	424,763,472	399,808,204	(47,712,796)	(24,700,969)	(19,642,269)	(24,955,268)
<b>Total GF Revenues</b>	<b>4,567,238,000</b>	<b>4,395,000,000</b>	<b>4,315,001,000</b>	<b>4,300,000,000</b>	<b>4,265,771,947</b>	<b>(301,466,053)</b>	<b>(129,228,054)</b>	<b>(49,229,053)</b>	<b>(34,228,053)</b>

Table 2 Actual Receipts and Adjusted Growth

	Actual FY2011-12	Actual FY2012-13	Actual FY2013-14	Actual FY2014-15	Actual FY2015-16	Actual FY2016-17
<b><u>GROSS RECEIPTS</u></b>						
Sales and Use	1,853,017,046	1,944,467,714	2,040,600,845	2,077,971,811	2,094,468,144	2,171,815,346
Individual Income	2,179,319,782	2,492,601,926	2,418,603,017	2,585,182,066	2,641,879,626	2,658,320,142
Corporate Income	262,094,785	318,145,131	338,342,475	377,110,289	355,255,463	317,877,308
Miscellaneous	201,889,679	200,072,864	225,324,574	217,791,194	251,287,376	228,108,875
Total Gross Receipts	4,496,321,292	4,955,287,635	5,022,870,911	5,258,055,360	5,342,890,608	5,376,121,671
<b><u>REFUNDS &amp; CREDITS</u></b>						
City Sales Tax	329,186,366	339,311,365	359,731,013	373,538,071	393,267,290	410,163,428
State Sales and Use	86,921,307	130,213,708	96,256,946	86,725,977	90,711,947	129,249,901
Sales tax to Highway Funds	0	0	59,819,123	73,742,441	73,155,323	74,054,661
CSI Turnback	transfer-out	transfer-out	transfer-out	8,543,052	9,310,274	9,958,507
Individual Income	356,435,528	390,689,885	35,784,413	379,718,163	420,790,809	433,480,089
Corporate Income	27,828,548	42,582,141	31,751,448	30,632,911	47,585,769	53,437,595
Miscellaneous	60,763	131,926	60,028	52,664	87,922	5,543
Total Refunds/Credits	800,432,512	902,929,025	905,462,679	952,953,279	1,034,909,334	1,110,349,724
<b><u>NET RECEIPTS</u></b>						
Sales and Use	1,436,909,373	1,474,942,641	1,524,793,763	1,535,422,270	1,528,023,310	1,548,388,849
Individual Income	1,822,884,254	2,101,912,041	2,060,758,896	2,205,463,903	2,221,088,817	2,224,840,053
Corporate Income	234,266,237	275,562,990	306,591,027	346,477,378	307,669,694	264,439,713
Miscellaneous	201,828,916	199,940,938	225,264,546	217,738,529	251,199,454	228,103,332
Total Net Receipts	3,695,888,780	4,052,358,610	4,117,408,232	4,305,102,080	4,307,981,275	4,265,771,947
<b><u>ADJUSTED GROWTH</u></b>						
Sales/Use	4.9%	5.2%	5.1%	2.5%	0.9%	1.7%
Ind Income	5.0%	8.6%	3.0%	8.3%	1.3%	1.1%
Corp Income	30.9%	9.0%	11.0%	13.8%	-9.1%	-11.8%
Misc Receipts	-6.4%	6.1%	2.6%	1.1%	3.9%	0.2%
Total GF Revenues	5.8%	7.2%	4.4%	6.2%	0.3%	0.3%

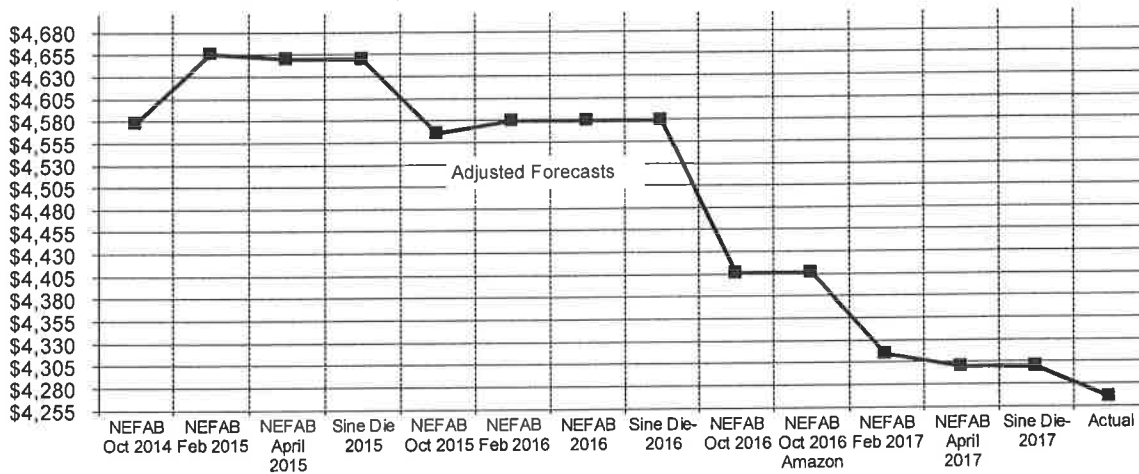
	Actual FY2011-12	Actual FY2012-13	Actual FY2013-14	Actual FY2014-15	Actual FY2015-16	Actual FY2016-17
<b><u>TOTAL BY MONTH</u></b>						
July	200,410,336	221,623,977	231,361,095	241,017,843	250,936,331	234,585,213
August	328,095,462	334,866,833	341,465,610	354,034,166	385,186,834	410,484,016
September	352,198,248	393,941,658	426,483,667	463,293,528	440,846,015	437,022,598
October	222,675,821	228,084,028	230,928,322	222,458,009	225,230,579	233,404,182
November	304,541,302	315,022,112	327,105,697	342,333,466	369,731,822	358,594,439
December	315,752,839	363,239,068	348,464,354	400,121,553	368,719,470	342,069,150
January	332,895,309	350,993,211	363,606,001	348,079,334	371,697,375	376,472,404
February	227,923,183	216,047,077	258,546,817	284,440,044	279,050,673	267,168,525
March	294,885,808	273,456,199	350,418,319	346,282,987	327,084,257	326,793,056
April	427,308,325	625,588,045	482,691,430	534,565,192	496,364,631	477,844,853
May	337,561,396	339,136,046	332,936,184	348,011,694	378,942,906	401,525,307
June	351,640,752	390,360,355	423,400,735	420,464,264	414,190,381	399,808,204
Total GF Revenues	3,695,888,781	4,052,358,610	4,117,408,232	4,305,102,080	4,307,981,275	4,265,771,947

Table 3 Chronology of FY2016-17 Revenue Forecasts

	FY2016-17 Revenue Forecasts (Thousands of \$)					Change Due to:			
	Sales/Use	Individual	Corporate	Misc	Total	Forecast	Bills	Other	Total
<b>Board Est-October 2014</b>	1,710,000	2,395,000	325,000	192,000	4,538,000				
Board Est-February 2015	1,691,000	2,405,000	335,000	186,000	4,617,000	79,000	0	0	79,000
Board Est-April 2015	1,685,000	2,410,000	330,000	185,000	4,610,000	(7,000)	0	0	(7,000)
Sine Die-2015 Session	1,683,200	2,407,937	329,072	225,232	4,645,441	0	35,441	0	35,441
Board Est-October 2015	1,620,000	2,415,000	315,000	212,000	4,562,000	(83,441)	0	0	(83,441)
Board Est-February 2016	1,610,000	2,440,000	310,000	215,000	4,575,000	13,000	0	0	13,000
Sine Die-2016 Session	1,607,111	2,440,075	310,000	222,924	4,580,110	0	5,110	0	5,110
Sine Die-2016 Session with WH	1,607,111	2,427,203	310,000	222,924	4,567,238	0	0	(12,872)	(12,872)
Board Est-October 2016	1,585,000	2,345,000	245,000	220,000	4,395,000	(172,238)	0	0	(172,238)
Board Est-Oct 2016 (adjust for Amazon)	1,596,201	2,345,000	245,000	220,000	4,406,201	0	0	11,201	11,201
Board Est-February 2017	1,570,000	2,290,000	235,000	220,000	4,315,000	(91,201)	0	0	(91,201)
Board Est-April 2017	1,550,000	2,285,000	240,000	225,000	4,300,000	(15,000)	0	0	(15,000)
Sine Die-2017 Session	1,550,000	2,285,000	240,000	225,000	4,300,000	0	0	0	0
Actual Receipts FY2016-17	1,548,389	2,224,840	264,440	228,103	4,265,772	(34,228)	0	0	(34,228)
Change from first NEFAB forecast to actual	(161,611)	(170,160)	(60,560)	36,103	(272,228)	(311,108)	40,551	(1,671)	(272,228)

**Chronology of FY2016-17 Forecasts**

Prior forecasts adjusted for subsequent legislation and federal tax changes



**Chronology of FY2015-16 Forecasts**

Prior forecasts adjusted for subsequent legislation and federal tax changes

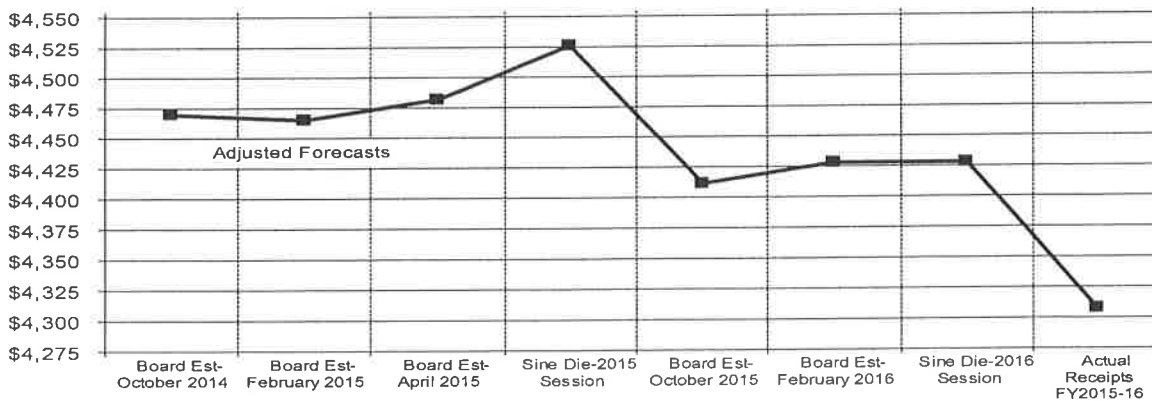
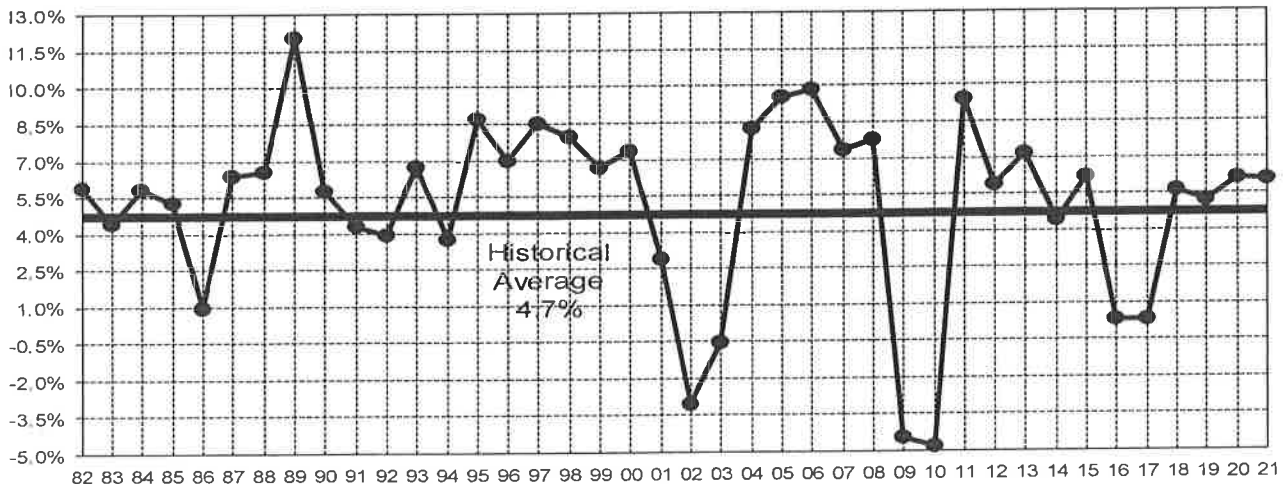


Table 4 Historical and Projected Revenues

	Sales	Individual	Corporate	Miscellaneous	Total	Adjusted Growth
FY 1996-97 Actual	755,907,807	944,117,130	137,337,967	172,241,113	2,009,604,017	8.5%
FY 1997-98 Actual	803,805,374	981,643,795	142,150,133	177,852,119	2,105,451,422	8.0%
FY 1998-99 Actual	744,650,752	1,078,522,994	135,033,658	165,661,901	2,123,869,305	6.7%
FY 1999-00 Actual	900,427,469	1,180,363,301	140,021,942	183,111,959	2,403,924,670	7.4%
FY 2000-01 Actual	905,023,176	1,233,363,553	138,040,082	180,435,044	2,456,861,855	2.9%
FY 2001-02 Actual	918,889,782	1,159,810,647	107,628,074	179,180,246	2,365,508,749	-3.0%
FY 2002-03 Actual	1,028,931,065	1,129,421,651	111,597,406	186,449,714	2,456,399,836	-0.5%
FY 2003-04 Actual	1,114,374,321	1,249,890,025	167,429,431	187,033,230	2,718,727,007	8.3%
FY 2004-05 Actual	1,231,011,089	1,400,076,680	198,380,442	207,726,086	3,037,194,297	9.5%
FY 2005-06 Actual	1,263,678,691	1,545,338,061	262,295,456	280,875,316	3,352,187,524	9.9%
FY 2006-07 Actual	1,303,826,416	1,650,895,394	213,027,010	240,582,953	3,408,331,773	7.3%
FY 2007-08 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%
FY 2009-10 Actual	1,289,796,877	1,514,830,114	154,332,137	245,720,545	3,204,679,673	-4.8%
FY 2010-11 Actual	1,372,784,033	1,735,208,600	154,944,966	236,717,493	3,499,655,092	9.4%
FY 2011-12 Actual	1,436,909,373	1,822,884,254	234,266,238	201,828,916	3,695,888,781	5.9%
FY 2012-13 Actual	1,474,942,641	2,101,912,041	275,562,990	199,940,938	4,052,358,610	7.2%
FY 2013-14 Actual	1,524,793,763	2,060,758,896	306,591,027	225,264,546	4,117,408,232	4.4%
FY 2014-15 Actual	1,535,419,516	2,205,463,903	346,477,378	217,738,529	4,305,099,326	6.2%
FY 2015-16 Actual	1,528,023,310	2,221,088,817	307,669,694	251,199,454	4,307,981,275	0.3%
FY 2016-17 Actual	1,548,388,849	2,224,840,053	264,439,713	228,103,332	4,265,771,947	0.3%
FY 2017-18 NEFAB (April+bills)	1,625,000,000	2,425,000,000	265,000,000	263,456,000	4,578,456,000	5.6%
FY 2018-19 NEFAB (April+bills)	1,710,000,000	2,550,000,000	280,000,000	175,000,000	4,715,000,000	5.2%
FY 2019-20 LFO Prelim	1,809,000,000	2,718,000,000	310,000,000	192,000,000	5,029,000,000	6.1%
FY 2020-21 LFO Prelim	1,913,000,000	2,895,000,000	340,000,000	185,000,000	5,333,000,000	6.1%
<b>AVERAGE GROWTH (adjusted)</b>						
Five Yr Financial Status (FY17 to FY21 Status)	4.5%	5.5%	2.2%	1.2%	4.7%	
Above Average Years (23)	5.6%	9.1%	11.8%	3.5%	7.3%	
Below Average Years (13)	1.5%	1.9%	-6.3%	0.5%	1.0%	
Historical Average (36 yrs)	4.1%	6.3%	4.5%	0.9%	4.7%	

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



## 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	0	37,046,760	na	0	0	0	37,046,760	4.7%
FY1984-85	37,046,760	(1,472,551)	na	0	0	0	35,574,209	4.5%
FY1985-86	35,574,209	227,855	na	(13,500,000)	0	0	22,302,064	2.7%
FY1986-87	22,302,064	1,428,021	na	0	0	0	23,730,085	2.7%
FY1987-88	23,730,085	1,654,844	na	0	(7,700,000)	0	17,684,929	1.7%
FY1988-89	17,684,929	139,000	na	32,600,000	0	0	50,423,929	4.4%
FY1989-90	50,423,929	113,114	na	(10,500,000)	0	0	40,037,043	3.5%
FY1990-91	40,037,043	0	na	(8,100,000)	0	0	31,937,043	2.3%
FY1991-92	31,937,043	0	na	(5,000,000)	0	0	26,937,043	1.8%
FY1992-93	26,937,043	0	na	(9,500,000)	0	0	17,437,043	1.1%
FY1993-94	17,437,043	0	3,063,462	7,250,000	0	0	27,750,505	1.7%
FY1994-95	27,750,505	0	(8,518,701)	7,250,000	(6,000,000)	0	20,481,804	1.2%
FY1995-96	20,481,804	0	(20,481,804)	18,189,565	0	0	18,189,565	1.0%
FY1996-97	18,189,565	0	19,740,786	3,032,333	0	0	40,962,684	2.0%
FY1997-98	40,962,684	0	91,621,018	0	0	0	132,583,702	6.3%
FY1998-99	132,583,702	0	111,616,422	(96,500,000)	(2,000,000)	0	145,700,124	6.9%
FY1999-00	145,700,124	0	20,959,305	3,500,000	(28,000,000)	0	142,159,429	5.9%
FY2000-01	142,159,429	0	77,576,670	(24,500,000)	(25,000,000)	0	170,236,099	6.9%
FY2001-02	170,236,099	0	0	(59,800,000)	(370,000)	0	110,066,099	4.7%
FY2002-03	110,066,099	66,476,446	0	(87,400,000)	0	(30,000,000)	59,142,545	2.4%
FY2003-04	59,142,545	59,463,461	0	(61,191,862)	(385,807)	30,000,000	87,028,337	3.2%
FY2004-05	87,028,337	8,170,556	108,727,007	(26,000,000)	(758,180)	0	177,167,720	5.8%
FY2005-06	177,167,720	0	261,715,297	0	(165,266,227)	0	273,616,790	8.2%
FY2006-07	273,616,790	0	259,929,524	(15,674,107)	(1,784,416)	0	516,087,791	15.1%
FY2007-08	516,087,791	0	191,436,773	(60,177,767)	(101,801,000)	0	545,545,797	15.6%
FY2008-09	545,545,797	0	116,976,571	(54,990,505)	(29,340,000)	0	578,191,863	17.2%
FY2009-10	578,191,863	0	0	(105,000,000)	(5,990,237)	0	467,201,626	14.6%
FY2010-11	467,201,626	0	0	(154,000,000)	0	0	313,201,626	8.9%
FY2011-12	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	428,878,372	0	104,789,781	(78,000,000)	(76,008,427)	4,461,676	384,121,402	9.5%
FY2013-14	384,121,402	0	285,292,610	49,400,000	251,294	0	719,065,306	17.5%
FY2014-15	719,065,306	0	96,721,232	(67,701,112)	(20,250,000)	0	727,835,426	16.9%
FY2015-16	727,835,426	0	84,599,532	0	(81,779,850)	0	730,655,108	17.0%
FY2016-17	730,655,108	0	0	0	(50,000,000)	0	680,655,108	16.0%
FY2017-18 Est	680,655,108	150,000	0	(125,000,000)	(118,230,772)	0	437,574,336	9.5%
FY2018-19 Est	437,574,336	0	0	(48,000,000)	(10,005,129)	0	379,569,207	7.9%
FY2019-20 Est	379,569,207	0	0	0	0	0	379,569,207	7.5%
FY2020-21 Est	379,569,207	0	0	0	(10,431,585)	0	369,137,622	6.9%

(1) Automatic transfers reflect the prior year variance from forecast. For example the \$84.6 million transfer in FY15-16 actually reflects FY14-15 "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 – FY20/FY21 Following Biennium

For the “following biennium” (FY2019-20 and FY2020-21), 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 2017 budget actions)

<i>Dollar Changes from FY19 Base Year</i>	Annual % Change			Projected Increases	
	FY20	FY21	2 Yr Avg	FY2019-20	FY2020-21
<b>FY2018-19 Base Appropriation</b>				<b>4,463,415,777</b>	<b>4,463,415,777</b>
Aid to K-12 Schools (TEEOSA GF only)	9.4%	7.1%	8.2%	93,270,362	171,026,596
Special Education	2.5%	2.5%	2.5%	5,663,165	11,467,908
Community Colleges	3.5%	3.5%	3.5%	3,476,521	7,074,720
Homestead Exemption	3.0%	3.0%	3.0%	2,430,000	4,932,900
Personal Property Tax Relief Act	3.0%	3.0%	3.0%	486,000	986,580
Aid to ESU's	2.5%	2.5%	2.5%	340,755	690,029
Medicaid	4.5%	4.5%	4.5%	37,657,801	77,010,204
Public Assistance	3.5%	3.5%	3.5%	3,667,792	7,463,957
Child Welfare Aid	4.5%	4.5%	4.5%	7,473,029	15,282,343
Developmental Disability aid	5.4%	4.3%	4.9%	7,975,799	14,739,190
Behavioral Health aid	2.5%	2.5%	2.5%	1,806,081	3,657,314
Children's Health Insurance (SCHIP)	344.7%	28.0%	186.4%	21,404,399	29,141,996
Employee Salaries - State Agencies	3.3%	2.5%	2.9%	15,363,479	27,565,628
Employee Health Insurance - State Agencies	6.0%	6.0%	6.0%	5,568,003	11,470,086
University/Colleges increased funding	3.8%	3.7%	3.8%	23,804,096	48,379,906
Operations increase - State Agencies	2.0%	2.0%	2.0%	2,970,803	6,001,022
Justice Reinvestment Act (LB605-2015)	--	--	specific	1,571,931	1,571,931
Juvenile Services - Courts	2.5%	2.5%	2.5%	1,350,000	2,733,750
DHHS Fund shifts, other increases	0.0%	0.0%	specific	1,650,000	1,650,000
Inmate per diem costs (Corrections)	3.0%	3.0%	3.0%	1,384,455	2,810,443
Staffing / population costs / medical (Corrections)	--	--	specific	5,006,066	5,006,066
Retirement (defined benefit plans)	--	--	specific	932,000	2,596,000
Construction	--	--	reaffirm only	20,996,488	8,296,838
All Other	0.0%	0.0%	na	626,595	900,488
<b>Total General Fund Increases (Biennial Basis)</b>	<b>6.0%</b>	<b>4.1%</b>	<b>5.1%</b>	<b>266,875,620</b>	<b>462,455,898</b>
<b>Projected Appropriation per Financial Status</b>				<b>4,730,291,397</b>	<b>4,925,871,675</b>

About 36% of 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 9.4% in FY20 and 7.1% in FY21. About half of the large increase in both years is the result of expiration of temporary changes included in LB 409 and the TEEOSA formula returning to its original form.

Another 18% of the projected increase is for employee salary and health insurance increases, 2.5% per year for salaries and 6% per year for health insurance. This is applied to the University of Nebraska and State Colleges as well as state agencies.

Another 16% of the projected increase is in Medicaid with an average growth of 4.5% per year. This reflects projected growth of 2.0% per year for population, client eligibility and utilization and 2.5% per year for provider rates. No change in the federal FMAP is assumed.

## AID TO LOCAL GOVERNMENTS

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**State Aid to Schools (TEEOSA)** The estimates for FY20 and FY21 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. The estimates reflect a growth in overall school aid of 9.4% in FY20 and 7.1% in FY21. About half of the large increase in both years is the result of expiration of temporary changes included in LB 409 and the TEEOSA formula returning to its original form.

**Special Education:** Increases for FY20 and FY21 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 \$3.5 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 4.5% per year. This reflects projected growth of 2.0% per year for population client eligibility and utilization and 2.5% per year for provider rates. This estimate also assumes no change in the federal match rate.

**Public Assistance** A basic growth rate of 3.5% per year is utilized for the various Public Assistance programs for the following biennium. This reflects no growth for population client eligibility and utilization and 2.5% per year for provider rates and 5% for child care rates.

**Child Welfare** A basic growth rate of 4.5% per year is utilized for the various Child Welfare programs for the following biennium. This reflects a 2% per year growth for population client eligibility and utilization and 2.5% per year for provider rates.

**Children's Health Insurance (CHIP)** For the following biennium, a 4.5% per year increase is used which is the same as Medicaid. However, the large increase is attributed to the federal match rate. The Affordable Care Act (ACA) included a provision that increased the regular SCHIP match rate by 23 percentage points for FFY2015 to FFY2019. This provision expires during the following biennium requiring an increase of \$20 million in FY19-20 and an additional \$6 million (annualize at a full \$26 million level) in FY20-21.

**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. Increases in the number of clients is from the fiscal note on LB333 which temporarily suspended the service entitle for graduates in FY18 and FY19. In the LB333 fiscal note, DHHS indicates an estimated 224 individuals will be eligible for the entitlement in FY20. About 150 people will be new graduates turning age 21 in that fiscal year. DHHS recently had a legal interpretation that the state entitlement to services should also apply for high school graduates who move to Nebraska from other states. This has not been the case in the past. HHS indicates there are 74 individuals who meet this criteria. Assuming 224 individuals are eligible for the entitlement for graduates in FY2019-20, the estimated general fund fiscal impact will be \$4,273,565. Assuming an additional 150 new graduates in FY21, the general fund fiscal impact will be about \$7,135,327.

**Behavioral Health Aid.** This area includes substance abuse and mental health aid. The increases in the following biennium reflect a 2.5% increase to reflect some annual increase in provider rates.

## **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. Also in FY19-20 funds are included to annualize the January 1, 2019 1.5% salary increase. This equates to a .75% increase.

**Employee Health Insurance** For planning purposes, a 6% per year increase in health insurance is included for the following biennium, similar to the prior biennium.

**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...

**Juvenile Justice services** As part of the juvenile justice reform, funding for juvenile services was shifted from DHHS to the courts. Much of these funds are to purchase services from outside vendors. The projected budget includes a 2.5% for provider rate increases similar to DHHS providers.

**Justice Reinvestment Act.** The \$1,571,931 increase shown in FY19-20 fully funds the last year of the justice reinvestment act as laid out in the fiscal note for LB605-2015.

**One time use of cash/federal funds – DHHS** A select file amendment reduced General Fund appropriations by \$2.8 million in the DHHS administrative program. This consisted of \$1.1 million which was transferred to the Dept of Veterans Affairs related to the shift of the veterans homes while the other \$1.65 million reduction shifted costs from General funds to cash and federal. This was considered a one-time shift so the \$1.65 million General Funds is restored starting in FY20.

**Inmate Per Diem Costs** Some costs at the Dept. of Correctional Services such as staffing are “fixed” within a range of inmate population, while 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



**DCS Protective Services Staffing** In FY18 and FY19 the enacted funding was below the agency request and Governors recommendation. The budget as enacted phased-in the additional staff over three years recognizing the current issue of vacancies and high turnover and providing more time to address those issues in existing staffing levels prior to adding larger numbers of additional staff. This \$5,066,000 funds the additional 80 staff in FY2019-20.

**Defined Benefit Retirement Plans** The increase in funding for the defined benefit retirement plans for FY20 and FY21 are based on the Cavanaugh Macdonald actuary presentation to the Retirement Committee in November 2016. This includes a slight increase in additional state contribution amounts for the Judges and Patrol plans plus an increase in the 2% of pay contribution in the school plan.

**Capital Construction** General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on the proposed FY18/FY19 biennial budget. The FY19-20 reaffirmation includes the \$11 million that the Governor had vetoed out of the FY18-19 appropriation for the State Capitol HVAC project. The veto related to cash flow of the project not the overall amount so this was added to the FY19-20 reaffirmation although technically the Governor could not increase the FY20 level the bill.



# **Tax Rate Review Committee**



**November 16, 2017**

**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 John Stinner  
Senator Dan Watermeier  
Senator Jim Scheer  
Senator Jim Smith  
Tony Fulton**

**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 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

	Actual FY2016-17	Biennial Budget FY2017-18	Biennial Budget FY2018-19	Following Biennium FY2019-20	Following Biennium FY2020-21
<b>BEGINNING BALANCE</b>					
1 Beginning Cash Balance	531,652,199	247,728,174	10,063,603	49,429,193	33,341,276
2 Cash Reserve transfers-automatic	0	0	0	0	0
3 Carryover obligations from FY17	0	(253,451,399)	0	0	0
4 Lapse FY17 reappropriations	0	39,722,738	0	0	0
5 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
6 Unobligated Beginning Balance	531,652,199	33,999,513	5,063,603	44,429,193	28,341,276
<b>REVENUES &amp; TRANSFERS</b>					
7 Net Receipts (Oct 2017 NEFAB+hist avg)	4,262,606,737	4,505,000,000	4,675,000,000	4,924,000,000	5,259,000,000
8 General Fund transfers-out (current law)	(217,100,000)	(234,970,000)	(233,770,000)	(232,500,000)	(232,500,000)
9 General Fund transfers-in (current law)					
10 in actual	0	125,000,000	48,000,000	0	0
11 in forecast					
12 Cash Reserve transfers (current law)	0	125,000,000	48,000,000	0	0
13 2018 Cash Reserve transfers (new)	--	0	0	0	0
14 2018 General Fund transfers-out	--	0	0	0	0
15 2018 General Fund transfers-in	--	0	0	0	0
16 2018 Revenue Bills	--	0	0	0	0
17 General Fund Net Revenues	4,045,506,737	4,395,030,000	4,489,230,000	4,691,500,000	5,026,500,000
<b>APPROPRIATIONS</b>					
18 Expenditures / Appropriations (2017 Session)	4,329,430,762	4,398,012,616	4,463,415,777	4,463,415,777	4,463,415,777
19 Projected budget increase, following biennium	--	0	0	266,875,620	462,455,898
20 2018 Midbiennium Budget Adjustments (requested)	0	20,953,294	1,387,217	1,387,217	1,387,217
21 TEEOSA school aid revisions	0	0	(19,938,584)	(29,090,697)	(26,773,708)
22 2018 State Claims	0	0	0	0	0
23 2018 "A" Bills	0	0	0	0	0
24 General Fund Appropriations	4,329,430,762	4,418,965,910	4,444,864,410	4,702,587,917	4,900,485,184
<b>ENDING BALANCE</b>					
25 \$ Ending balance (per Financial Status)	247,728,174	10,063,603	49,429,193	33,341,276	154,356,092
26 \$ Ending balance (at Min. Reserve 2.5% FY19 only)			222,731,419		284,488,229
27 Excess (shortfall) from Minimum Reserve			(173,302,226)		(130,132,137)
28 Biennial Reserve (%)			0.5%		1.6%
<b>General Fund Appropriations</b>					
29 Annual % Change - Appropriations (w/o deficits)	3.3%	-0.3%	1.5%	6.0%	4.1%
30 Two Year Average	3.7%	--	0.6%	--	5.1%
<b>General Fund Revenues</b>					
31 Est. Revenue Growth (rate/base adjusted)	0.3%	3.3%	4.8%	6.7%	6.8%
32 Two Year Average	0.3%	--	4.0%	--	6.7%
33 Five Year Average	3.7%	--	3.0%	--	4.5%
34 On-Going Revenues vs Appropriations	(366,184,100)	(127,982,616)	(22,185,777)	(38,791,397)	100,628,325

<b>CASH RESERVE FUND</b>	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Beginning Balance	730,655,108	680,655,108	437,574,336	379,569,207	379,569,207
Excess of certified forecasts (line 3 in Status)	0	0	0	0	0
To/from Gen Fund per current law	0	(125,000,000)	(48,000,000)	0	0
To Nebr Capital Construction Fund (NCCF)	0	(118,230,772)	(10,005,129)	0	(10,431,585)
To/from Oral Health Training and Services Fund	0	150,000	0	0	0
To Transportation Infrastructure Fund	(50,000,000)	0	0	0	0
Projected Unobligated Ending Balance	680,655,108	437,574,336	379,569,207	379,569,207	369,137,622

# Changes to the Financial Status

The General Fund Financial Status for the FY18/FY19 biennium has actually declined since the July meeting of the Tax Rate Review Committee as shown below.

Table 2 Chronology of the Financial Status

Millions of Dollars	FY 2016-17	FY 2017-18	FY 2018-19	3 Yr Total	FY 2019-20	FY 2020-21	5 Yr Total
<b>Sine Die 2017</b>				<b>45.4</b>			<b>203.1</b>
FY17 Actual vs Est General Fund Net Receipts	(34.2)	0.0	0.0	(34.2)	0.0	0.0	(34.2)
FY17 Actual vs Est Transfers-in	0.1	0.0	0.0	0.1	0.0	0.0	0.1
FY17 Actual vs Est Accounting adjustment	(3.2)	0.0	0.0	(3.2)	0.0	0.0	(3.2)
Assumed lapse, FY17 unexpended appropriations	0.0	20.0	0.0	20.0	0.0	0.0	20.0
Change in Minimum Reserve	0.0	0.0	(5.3)	(5.3)	0.0	5.8	0.5
<b>July 2017 Tax Rate Review Committee</b>				<b>22.8</b>			<b>186.3</b>
Revenue Forecasts (revised October 2017)	0.0	(100.4)	(123.5)	(223.9)	(105.0)	(74.0)	(402.9)
"Above certified" FY18 forecast to CRF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Minimum Reserve	0.0	0.0	5.5	5.5	0.0	6.2	11.6
<b>Post October 2017 NEFAB forecasts</b>				<b>(195.7)</b>			<b>(204.9)</b>
Lapse of FY17 unexpended above July TRR est	0.0	19.7	0.0	19.7	0.0	0.0	19.7
Exclude allocation for deficits	0.0	5.0	0.0	5.0	0.0	0.0	5.0
2018 Midbiennium Budget Requests (original)	0.0	(21.0)	(1.4)	(22.3)	(1.4)	(1.4)	(25.1)
TEEOSA School Aid revisions (Nov 2017 meeting)	0.0	0.0	19.9	19.9	29.1	26.8	75.8
Change in Minimum Reserve	0.0	0.0	0.0	0.0	0.0	(0.7)	(0.7)
<b>November 2017 Tax Rate Review Committee</b>				<b>(173.3)</b>			<b>(130.2)</b>

## Revenue Forecasts

The FY2017-18 and FY2018-19 forecasts were revised by the Nebraska Economic Forecast Advisory Board on October 27, 2017. At that meeting, revenue forecasts were reduced by a total of \$223.9 million; \$100.4 million in FY17-18 and \$123.5 million in FY18-19. Rate and base adjusted revenue growth for the two year period is an average 4.0%.

The \$100.4 million reduction in FY17-18 reflects a combination of a \$34.2 million base reduction due to the FY17 actual receipts and a \$66.2 million lower growth (3.3% current versus 4.9% at Sine Die). The \$123.5 million reduction in FY18-19 reflects the \$100.4 million reduction in the FY18 base and a \$23.1 million lower growth (4.8% current versus 5.2% at Sine Die).

Fiscal Yr	Adjusted Revenue Growth		
	Sine Die 2017	July 2017	Oct 2017
FY2016-17	1.0%	0.3%	0.3%
FY2017-18	4.9%	5.6%	3.3%
FY2018-19	5.2%	5.2%	4.8%
FY2019-20	6.1%	6.1%	6.7%
FY2020-21	6.1%	6.1%	6.8%

## **Actual FY2016-17 lapsed appropriations**

In the July 2017 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 in September. The final calculation of FY17 reappropriations and encumbrances resulted in expired (lapsed) appropriations of \$39.7 million versus the \$20 million estimate with a like increase in the unobligated beginning balance for FY17-18.

## **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. Based on valuation and spending assumptions agreed to at that meeting, Legislative Fiscal Office calculations result in a total estimated TEEOSA aid for FY2018-19 of \$1,002,030,042 which is \$23.7 million less than the estimate at Sine Die 2017. A \$3.8 million reduction in the estimate of Insurance Premium Tax, results in a General Fund estimate for FY2018-19 of \$976,793,369 or \$19.9 million less than currently budgeted.

About 75% of the reduction in aid is attributed to actual certified valuations. Although total valuation growth was actually less (2.88% vs 3.48% growth) higher residential, commercial, and industrial valuations compared to a decline in agricultural valuation resulted in higher valuations in equalized districts and a reduction in equalization aid. 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 FY17 Annual Financial Reports (AFR) from schools are compiled and available. At that point many key calculation components in the TEEOSA formula will be known numbers not just estimates. This includes school spending and the amount of other school receipts. Note that under this estimate, total TEEOSA aid for FY18-19 would be only a 0.3% increase over the FY17-18 level.

Although not required by statute, at that same meeting estimates for the two "out years" were considered. For FY2019-20, lower estimated growth in spending and the higher base property valuations combined for a significant reduction in estimated aid. Projected school spending growth decreased from 4.0% to 3.53% and reflects the budget to budget growth as compiled for FY17-18. Property valuation growth estimates for 2018 decreased from a rough estimate of 3.5% to 1.9% based on preliminary input from county assessors to the Property Assessment division of the state Dept. of Revenue (DPAT). Overall TEEOSA aid is projected to increase by 8.3% in FY20 and 7.4% in FY21, the high growth attributable to the restoration of the allowable growth rate and cost growth factor is temporarily enacted in LB409-2017. Excluding this annualizing affect, TEEOSA growth would be about 4.5% each year.

## **2018 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 \$22.3 million of budget requests have been submitted. Although included here, these requests will be subject to the budget review and approval process during the 2018 Session. Of the requested \$22 million, \$17.5 million (78%) relates to a child welfare funding issue.

There will also likely be other requests that will subsequently be submitted for things such as Homestead Exemption and defined benefit retirement plans.



<b>2018 General Fund Requests</b>	<b>FY2017-18</b>	<b>FY2018-19</b>	<b>2 Yr Total</b>
DHHS-Child Welfare Aid deficit	38,340,231	23,154,917	61,495,148
Education-TEEOSA, insurance premium tax adjustment	3,654,856	0	3,654,856
DHHS-Develop Disability, service duplicative payment, reimburse feds	2,500,000	0	2,500,000
DHHS-Shift appropriation, Children's Health Insurance to Medicaid	2,500,000	0	2,500,000
Education-TEEOSA state aid, transition aid lottery fund distribution	473,345	0	473,345
Education-Nebraska Career Connections Contract	225,000	225,000	450,000
Education-School Breakfast Program	107,906	0	107,906
Liquor Control-Legal related costs, pending cases in Sheridan County.	50,000	0	50,000
Hist Society-Retiree leave payout	99,205	0	99,205
DHHS-Public Assistance excess, use to offset child welfare aid	(22,000,000)	(22,000,000)	(44,000,000)
Education-TEEOSA state aid, to NDE calculated per current law	0	0	0
DHHS-BSDC, shift funding from General to Cash	(2,500,000)	0	(2,500,000)
DHHS-Shift appropriation, Children's Health Insurance to Medicaid	(2,500,000)	0	(2,500,000)
All Other (net)	3,250	7,800	11,050
Midbiennium Budget Requests – General Fund	20,953,793	1,387,717	22,341,510

# General Fund Revenues

Revenue estimates for FY2017-18 and FY2018-19 are the October 2017 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). These forecasts yield a projected adjusted revenue growth of 3.3% in FY17-18 and 4.8% in FY18-19, an average growth of 4.0%. While this two year growth is below the 4.75% historical average, the average growth for the three prior three years was 2.3%

For the following biennium or what's commonly referred to as the "out years", the preliminary estimates for FY2019-20 and FY2020-21 are prepared by the Legislative Fiscal Office (LFO) using the "capped" historical average methodology. This "smoothing" technique derives "out year" revenue estimates by calculating the level of revenues that would yield a five year average growth (FY16 to FY21) roughly equal to the 36 year historical average (4.75%) less .25% which is the projected impact of indexing the tax brackets as enacted in LB987 (2014). Under this method, revenue growth for the two years would average 6.8%.

Table 3 - General Fund Revenue Forecasts

	Actual FY2016-17	NEFAB FY2017-18	NEFAB FY2018-19	LFO Prelim FY2019-20	LFO Prelim FY2020-21
<b>Actual/Forecast</b>					
Sales and Use Tax	1,548,388,849	1,620,000,000	1,700,000,000	1,785,000,000	1,873,000,000
Individual Income Tax	2,224,840,053	2,310,000,000	2,425,000,000	2,633,000,000	2,865,000,000
Corporate Income Tax	264,439,713	295,000,000	300,000,000	320,000,000	340,000,000
Miscellaneous receipts	228,103,332	280,000,000	250,000,000	186,000,000	181,000,000
<b>Total General Fund Revenues</b>	<b>4,265,771,947</b>	<b>4,505,000,000</b>	<b>4,675,000,000</b>	<b>4,924,000,000</b>	<b>5,259,000,000</b>
<b>Adjusted Growth</b>					
Sales and Use Tax	1.7%	2.9%	4.5%	4.5%	4.5%
Individual Income Tax	1.1%	3.7%	5.3%	8.5%	8.8%
Corporate Income Tax	-11.9%	11.0%	1.7%	6.0%	5.8%
Miscellaneous receipts	0.2%	-9.5%	6.1%	3.9%	4.4%
<b>Total General Fund Revenues</b>	<b>0.3%</b>	<b>3.3%</b>	<b>4.8%</b>	<b>6.7%</b>	<b>6.8%</b>
Two Yr Average	0.3%	--	4.0%	--	6.8%
Five Yr Average	3.7%	--	3.0%	--	4.5%

**Chronology of FY2017-18 Forecasts**  
(Prior estimates adjusted for revenue bills enacted)

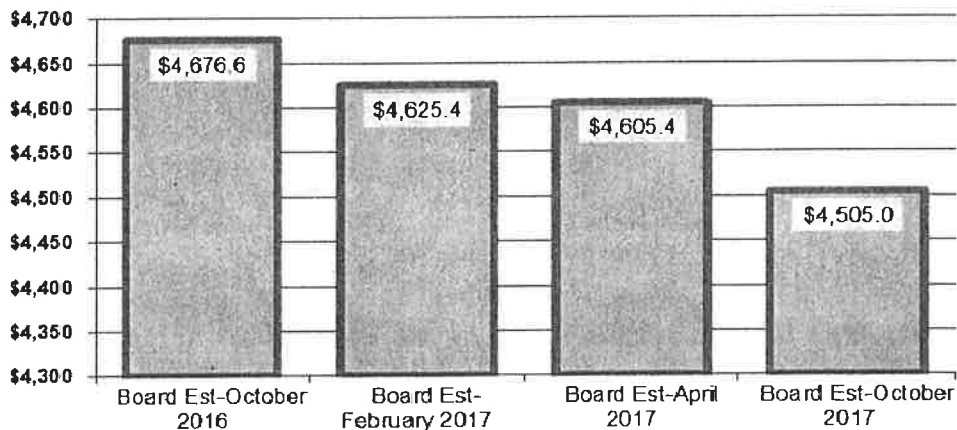
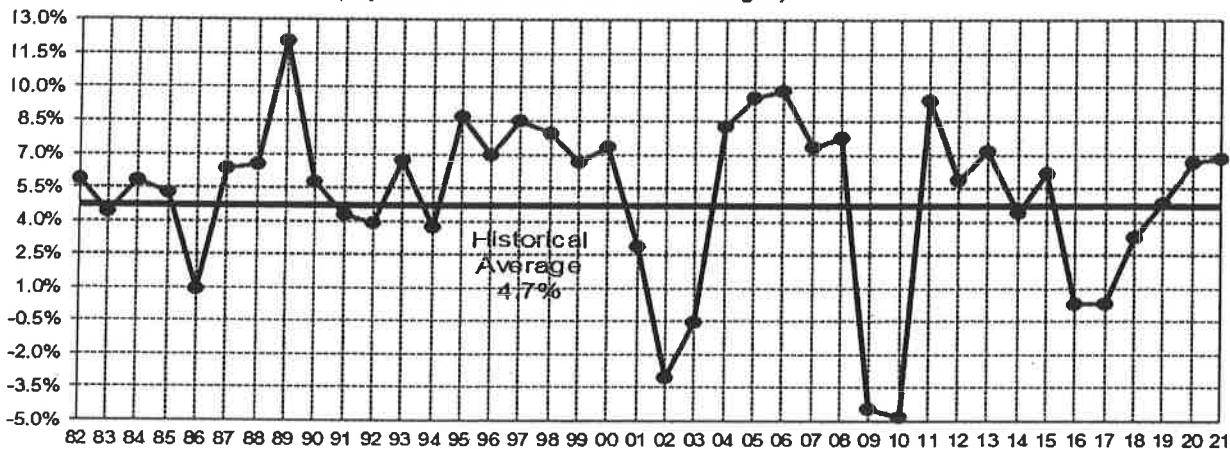


Table 4 Actual and Projected General Fund Revenues

Fiscal Year	Sales and Use Tax	Individual Income Tax	Corporate Income Tax	Miscellaneous Taxes and	Total Net Receipts	Adjusted Growth
FY 1996-97	755,907,807	944,117,130	137,337,967	172,241,113	2,009,604,017	8.5%
FY 1997-98	803,805,374	981,643,795	142,150,133	177,852,119	2,105,451,422	8.0%
FY 1998-99	744,650,752	1,078,522,994	135,033,658	165,661,901	2,123,869,305	6.7%
FY 1999-00	900,427,469	1,180,363,301	140,021,942	183,111,959	2,403,924,670	7.4%
FY 2000-01	905,023,176	1,233,363,553	138,040,082	180,435,044	2,456,861,855	2.9%
FY 2001-02	918,889,782	1,159,810,647	107,628,074	179,180,246	2,365,508,749	-3.0%
FY 2002-03	1,028,931,065	1,129,421,651	111,597,405	186,449,714	2,456,399,835	-0.5%
FY 2003-04	1,114,374,321	1,249,890,025	167,429,431	187,033,230	2,718,727,007	8.3%
FY 2004-05	1,231,011,089	1,400,076,680	198,380,442	207,726,086	3,037,194,297	9.5%
FY 2005-06	1,263,678,691	1,545,338,061	262,295,456	280,875,316	3,352,187,524	9.9%
FY 2006-07	1,303,826,416	1,650,895,394	213,027,010	240,582,953	3,408,331,773	7.3%
FY 2007-08	1,321,867,139	1,726,145,405	232,851,654	225,298,373	3,506,162,571	7.7%
FY 2008-09	1,326,161,017	1,600,418,236	198,483,786	232,405,148	3,357,468,187	-4.4%
FY 2009-10	1,289,796,877	1,514,830,114	154,332,137	245,720,545	3,204,679,673	-4.8%
FY 2010-11	1,372,784,033	1,735,208,600	154,944,966	236,717,493	3,499,655,092	9.4%
FY 2011-12	1,436,909,373	1,822,884,254	234,266,237	201,828,916	3,695,888,780	5.9%
FY 2012-13	1,474,942,641	2,101,912,041	275,562,990	199,940,938	4,052,358,610	7.2%
FY 2013-14	1,524,793,763	2,060,758,896	306,591,027	225,264,546	4,117,408,232	4.4%
FY 2014-15	1,535,419,516	2,205,463,903	346,477,378	217,738,529	4,305,099,326	6.2%
FY 2015-16	1,528,023,310	2,221,088,817	307,669,694	251,199,454	4,307,981,275	0.3%
FY 2016-17	1,548,388,848	2,224,840,053	264,439,713	228,103,331	4,265,771,945	0.3%
FY 2017-18 NEFAB	1,620,000,000	2,310,000,000	295,000,000	280,000,000	4,505,000,000	3.3%
FY 2018-19 NEFAB	1,700,000,000	2,425,000,000	300,000,000	250,000,000	4,675,000,000	4.8%
FY 2019-20 LFO Prelim	1,785,000,000	2,633,000,000	320,000,000	186,000,000	4,924,000,000	6.7%
FY 2020-21 LFO Prelim	1,873,000,000	2,865,000,000	340,000,000	181,000,000	5,259,000,000	6.8%
<b>Avg Growth (adjusted)</b>						
5 Yr Financial Status	4.1%	5.3%	2.2%	0.8%	4.5%	
Above Avg Years (23)	5.6%	9.1%	11.8%	3.5%	7.3%	
Below Avg Years (13)	1.5%	1.9%	-6.3%	0.5%	1.0%	
Hist Average (36 yrs)	4.1%	6.3%	4.5%	0.9%	4.7%	

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



## Chronology of Revenue Forecasts

Table 5 contains a chronology of the revenue forecasts for FY2016-17 through FY2018-19. The first column shows the total revenue forecast while the last four columns breaks down the total dollar change in the forecast whether caused by bills enacted by the Legislature, other items such as federal tax changes, or simply a change in the revenue expectations (base).

Table 5 Chronology of Revenue Forecasts

	Total	Change in Forecast due to:			
		Base	Bills	Other	Total
<b>FY2016-17</b>					
<i>Board Est-October 2014</i>	4,538,000	--	--	--	--
Board Est-February 2015	4,617,000	79,000	0	0	79,000
Board Est-April 2015	4,610,000	(7,000)	0	0	(7,000)
Sine Die-2015 Session	4,645,441	0	35,441	0	35,441
Board Est-October 2015	4,562,000	(83,441)	0	0	(83,441)
Board Est-February 2016	4,575,000	13,000	0	0	13,000
Sine Die-2016 Session	4,580,110	0	5,110	0	5,110
Sine Die-2016 Session with WH	4,567,238	0	0	(12,872)	(12,872)
Board Est-October 2016	4,395,000	(172,238)	0	0	(172,238)
Board Est-Oct 2016 (adjusted)*	4,406,201	0	0	11,201	11,201
Board Est-February 2017	4,315,000	(91,201)	0	0	(91,201)
Board Est-April 2017	4,300,000	(15,000)	0	0	(15,000)
Sine Die-2017 Session	4,300,000	0	0	0	0
Actual Receipts FY2016-17	4,265,772	(34,228)	0	0	(34,228)
<b>FY2017-18</b>					
<i>Board Est-October 2016</i>	4,538,000	--	--	--	--
Board Est-Oct 2016 (adjusted)*	4,566,218	0	0	28,218	28,218
Board Est-February 2017	4,515,000	(51,218)	0	0	(51,218)
Board Est-April 2017	4,495,000	(20,000)	0	0	(20,000)
Sine Die-2017 Session	4,605,427	0	110,427	0	110,427
Board Est-October 2017	4,505,000	(100,427)	0	0	(100,427)
<b>FY2018-19</b>					
<i>Board Est-October 2016</i>	4,730,000	--	--	--	--
Board Est-Oct 2016 (adjusted)*	4,761,344	0	0	31,344	31,344
Board Est-February 2017	4,735,000	(26,344)	0	0	(26,344)
Board Est-April 2017	4,715,000	(20,000)	0	0	(20,000)
Sine Die-2017 Session	4,798,456	0	83,456	0	83,456
Board Est-October 2017	4,675,000	(123,456)	0	0	(123,456)

\* Adjusted to include amounts related to Amazon.com voluntary collection of sales tax

# General Fund Appropriations

References to appropriations in this section do not reflect budget actions that might take place during the 2018 session including revised TEEOSA school aid estimates.

## Enacted Budget – FY18/FY19 Current Biennium:

The appropriations for the current biennium are the amounts enacted during the 2017 legislative session and reflected a budget change of -0.3% in FY17-18 and 1.5% in FY18-19.

## Projected Budget – FY20/FY21 Following Biennium

For the “following biennium” (FY2019-20 and FY2020-21), 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 6 Projected Budget Increases-Following Biennium  
(includes on-going impact of 2017 budget actions, excludes impact of any potential 2018 changes)

<i>Dollar Changes from FY19 Base Year</i>	Annual % Change			Projected Increases	
	FY20	FY21	2 Yr Avg	FY2019-20	FY2020-21
<b>FY2018-19 Base Appropriation</b>				<b>4,463,415,777</b>	<b>4,463,415,777</b>
Aid to K-12 Schools (TEEOSA GF only)	9.4%	7.1%	8.2%	93,270,362	171,026,596
Special Education	2.5%	2.5%	2.5%	5,663,165	11,467,908
Community Colleges	3.5%	3.5%	3.5%	3,476,521	7,074,720
Homestead Exemption	3.0%	3.0%	3.0%	2,430,000	4,932,900
Personal Property Tax Relief Act	3.0%	3.0%	3.0%	486,000	986,580
Aid to ESU's	2.5%	2.5%	2.5%	340,755	690,029
Medicaid	4.5%	4.5%	4.5%	37,657,801	77,010,204
Public Assistance	3.5%	3.5%	3.5%	3,667,792	7,463,957
Child Welfare Aid	4.5%	4.5%	4.5%	7,473,029	15,282,343
Developmental Disability aid	5.4%	4.3%	4.9%	7,975,799	14,739,190
Behavioral Health aid	2.5%	2.5%	2.5%	1,806,081	3,657,314
Childrens Health Insurance (SCHIP)	344.7%	28.0%	186.4%	21,404,399	29,141,996
Employee Salaries - State Agencies	3.3%	2.5%	2.9%	15,363,479	27,565,628
Employee Health Insurance - State Agencies	6.0%	6.0%	6.0%	5,568,003	11,470,086
University/Colleges increased funding	3.8%	3.7%	3.8%	23,804,096	48,379,906
Operations increase - State Agencies	2.0%	2.0%	2.0%	2,970,803	6,001,022
Justice Reinvestment Act (LB605-2015)	--	--	specific	1,571,931	1,571,931
Juvenile Services - Courts	2.5%	2.5%	2.5%	1,350,000	2,733,750
DHHS Fund shifts, other increases	0.0%	0.0%	calculated	1,650,000	1,650,000
Inmate per diem costs (Corrections)	3.0%	3.0%	3.0%	1,384,455	2,810,443
Staffing / population costs / medical (Corrections)	--	--	specific	5,006,066	5,006,066
Retirement (defined benefit plans)	--	--	specific	932,000	2,596,000
Construction	--	--	reaffirm only	20,996,488	8,296,838
All Other	0.0%	0.0%	na	626,595	900,488
<b>Total General Fund Increases (Biennial Basis)</b>	<b>6.0%</b>	<b>4.1%</b>	<b>5.1%</b>	<b>266,875,620</b>	<b>462,455,898</b>
<b>Projected Appropriation per Financial Status</b>				<b>4,730,291,397</b>	<b>4,925,871,675</b>

## AID TO LOCAL GOVERNMENTS

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**State Aid to Schools (TEEOSA)** The numbers shown here for FY20 and FY21 are Legislative Fiscal Office estimates *used at Sine Die 2017* and 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. The estimates reflect a growth in overall school aid of 9.4% in FY20 and 7.1% in FY21. About half of the large increase in both years is the result of expiration of temporary changes included in LB 409 and the TEEOSA formula returning to its original form.

**Special Education:** Increases for FY20 and FY21 reflect a 2.5% per year increase. Although statute allows for a growth up to 10% 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 \$3.5 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 4.5% per year. This reflects projected growth of 2.0% per year for population client eligibility and utilization and 2.5% per year for provider rates. This estimate also assumes no change in the federal match rate.

**Public Assistance** A basic growth rate of 3.5% per year is utilized for the various Public Assistance programs for the following biennium. This reflects no growth for population client eligibility and utilization and 2.5% per year for provider rates and 5% for child care rates.

**Child Welfare** A basic growth rate of 4.5% per year is utilized for the various Child Welfare programs for the following biennium. This reflects a 2% per year growth for population client eligibility and utilization and 2.5% per year for provider rates.

**Children's Health Insurance (CHIP)** For the following biennium, a 4.5% per year increase is used which is the same as Medicaid. However, the large increase is attributed to the federal match rate. The Affordable Care Act (ACA) included a provision that increased the regular SCHIP match rate by 23 percentage points for FFY2015 to FFY2019. This provision expires during the following biennium requiring an increase of \$20 million in FY19-20 and an additional \$6 million (annualize at a full \$26 million level) in FY20-21.

**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. Increases in the number of clients is from the fiscal note on LB333 which temporarily suspended the service entitlement for graduates in FY18 and FY19. In the LB333 fiscal note, DHHS indicated an estimated 224 individuals will be eligible for the entitlement in FY20. About 150 people will be new graduates turning age 21 in that fiscal year. DHHS recently had a legal interpretation that the state entitlement to services should also apply for high school graduates who move to Nebraska from other states. This has not been the case in the past. DHHS indicates there are 74 individuals who meet this criteria. Assuming 224 individuals are eligible for the entitlement for graduates in FY2019-20, the estimated general fund fiscal impact will be \$4,273,565. Assuming an additional 150 new graduates in FY21, the general fund fiscal impact will be about \$7,135,327.

**Behavioral Health Aid.** This area includes substance abuse and mental health aid. The increases in the following biennium reflect a 2.5% increase to reflect some annual increase in provider rates.

## **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. Also in FY19-20 funds are included to annualize the January 1, 2019 1.5% salary increase. This equates to a .75% increase.

**Employee Health Insurance** For planning purposes, a 6% per year increase in health insurance is included for the following biennium, similar to the prior biennium.

**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...

**Juvenile Justice services** As part of the juvenile justice reform, funding for juvenile services was shifted from DHHS to the courts. Much of these funds are to purchase services from outside vendors. The projected budget includes a 2.5% for provider rate increases similar to DHHS providers.

**Justice Reinvestment Act.** The \$1,571,931 increase shown in FY19-20 fully funds the last year of the justice reinvestment act as laid out in the fiscal note for LB605-2015.

**One time use of cash/federal funds – DHHS** A select file amendment reduced General Fund appropriations by \$2.8 million in the DHHS administrative program. This consisted of \$1.1 million which was transferred to the Dept of Veterans Affairs related to the shift of the veterans homes while the other \$1.65 million reduction shifted costs from General funds to cash and federal. This was considered a one-time shift so the \$1.65 million General Funds is restored starting in FY20.

**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

**DCS Protective Services Staffing** In FY18 and FY19 the enacted funding was below the agency request and Governors recommendation. The budget as enacted phased-in the additional staff over three years recognizing the current issue of vacancies and high turnover and providing more time to address those issues in existing staffing levels prior to adding larger numbers of additional staff. This \$5,066,000 funds the additional 80 staff in FY2019-20.

**Defined Benefit Retirement Plans** The increase in funding for the defined benefit retirement plans for FY20 and FY21 are based on the Cavanaugh Macdonald actuary presentation to the Retirement Committee in November 2016. This includes a slight increase in additional state contribution amounts for the Judges and Patrol plans plus an increase in the 2% of pay contribution in the school plan.

**Capital Construction** General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on the proposed FY18/FY19 biennial budget. The FY19-20 reaffirmation includes the \$11 million that the Governor had vetoed out of the FY18-19 appropriation for the State Capitol HVAC project. The veto related to cash flow of the project not the overall amount so this was added to the FY19-20 reaffirmation although technically the Governor could not increase the FY20 level the bill.



# Cash Reserve Fund

Table 7 Cash Reserve Fund Status

	Actual FY2016-17	Estimated FY2017-18	Estimated FY2018-19	Estimated FY2019-20	Estimated FY2020-21
Beginning Balance	730,655,108	680,655,108	437,574,336	379,569,207	379,569,207
Excess of certified forecasts	0	0	0	0	0
To/from Gen Fund per current law	0	(125,000,000)	(48,000,000)	0	0
To Nebr Capital Construction Fund (NCCF)	0	(118,230,772)	(10,005,129)	0	(10,431,585)
To/from Oral Health Training and Services Fund	0	150,000	0	0	0
To Transportation Infrastructure Fund	(50,000,000)	0	0	0	0
Ending Balance	680,655,108	437,574,336	379,569,207	379,569,207	369,137,622

The initial purpose of the Cash Reserve Fund (CRF) was to set aside money as a "safety net" for the General Fund, sustaining the ability of the General Fund to pay bills when balances would otherwise be insufficient for day to day cash flow. In addition to cash flow another major purpose of the CRF was added later; protection against forecast errors and periods of low year over year revenue growth. 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 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 30 year period the average negative variance is -4.3% clustered 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 average forecast from FY16 to FY19 the target balance would be \$746 million.

Another factor to keep in mind is the need for supplemental funds during a budget down period. One recent illustration is the latest budget shortfall which occurred during the 2008 through -2011 legislative sessions. During that time a total of \$986 million of one-time funds were utilized to balance the budget in addition to the various budget cuts that were made. The largest amount of these one-time funds, \$653.8 million, came from the federal government through several ARRA programs (FMAP, General and Education stabilization) followed by Cash Reserve Fund transfers (\$259 million) and extraordinary cash fund lapses (\$73.2 million). While this was a time of unprecedented revenue declines, it illustrates the cumulative impact of multiple year shortfalls.

*Note that this discussion of the appropriate level of the Cash Reserve Fund is applicable to where the CRF should be **at its peak** after that part of the cycle with positive revenue growth and positive variances from the forecast. As we turn into the negative part of this cycle, the question is how much of the CRF can or should be utilized to address the projected budget shortfall.*

A key to answering this question is whether the use the Cash Reserve Fund is only a bridge until a structural balance is achieved or a short term solution which covers up an on-going structural imbalance. In terms of the enacted budget there is a structural balance between on-going revenues and on-going appropriations at the end of the biennial budget. This shows that the use of the cash reserve fund relates to restoration of the 3% reserve and not financing an unsustainable level of spending.

Table 8 Variance from Revenue Projections

FY	Session	Projected at Sine Die **	Actual Receipts	\$ Variance	% Variance	
					Negative	Positive
FY 1986-87	Sine Die 1986	878.0	886.4	8.4		1.0%
FY 1987-88	Sine Die 1987	924.3	1,016.3	92.0		10.0%
FY 1988-89	Sine Die 1988	988.4	1,133.5	145.1		14.7%
FY 1989-90	Sine Die 1989	1,110.9	1,152.7	41.8		3.8%
FY 1990-91	Sine Die 1990	1,334.6	1,367.1	32.5		2.4%
FY 1991-92	Sine Die 1991	1,493.2	1,490.4	(2.8)	-0.2%	
FY 1992-93	Sine Die 1992	1,537.3	1,524.7	(12.6)	-0.8%	
FY 1993-94	Sine Die 1993	1,662.5	1,653.7	(8.8)	-0.5%	
FY 1994-95	Sine Die 1994	1,729.9	1,706.0	(23.9)	-1.4%	
FY 1995-96	Sine Die 1995	1,834.3	1,836.7	2.4		0.1%
FY 1996-97	Sine Die 1996	1,918.0	2,009.6	91.6		4.8%
FY 1997-98	Sine Die 1997	1,993.8	2,105.4	111.6		5.6%
FY 1998-99	Sine Die 1998	2,102.9	2,123.9	21.0		1.0%
FY 1999-00	Sine Die 1999	2,326.3	2,403.9	77.6		3.3%
FY 2000-01	Sine Die 2000	2,484.3	2,456.8	(27.5)	-1.1%	
FY 2001-02	Sine Die 2001	2,646.0	2,365.5	(280.5)	-10.6%	
FY 2002-03	Sine Die 2002	2,725.7	2,456.4	(269.3)	-9.9%	
FY 2003-04	Sine Die 2003	2,732.0	2,718.7	(13.3)	-0.5%	
FY 2004-05	Sine Die 2004	2,775.5	3,037.2	261.7		9.4%
FY 2005-06	Sine Die 2005	3,092.3	3,352.2	259.9		8.4%
FY 2006-07	Sine Die 2006	3,217.0	3,408.3	191.4		5.9%
FY 2007-08	Sine Die 2007	3,389.2	3,506.1	116.9		3.5%
FY 2008-09	Sine Die 2008	3,531.7	3,357.5	(174.3)	-4.9%	
FY 2009-10	Sine Die 2009	3,446.7	3,204.7	(242.0)	-7.0%	
FY 2010-11	Sine Die 2010	3,422.2	3,499.7	77.4		2.3%
FY 2011-12	Sine Die 2011	3,591.1	3,695.9	104.8		2.9%
FY 2012-13	Sine Die 2012	3,767.1	4,052.4	285.3		7.6%
FY 2013-14	Sine Die 2013	4,020.7	4,117.4	96.7		2.4%
FY 2014-15	Sine Die 2014	4,220.5	4,305.1	84.6		2.0%
FY 2015-16	Sine Die 2015	4,481.9	4,308.0	(173.9)	-3.9%	
FY 2016-17	Sine Die 2016	4,578.4	4,265.8	(312.6)	-6.9%	
FY 2017-18 est	Sine Die 2017	4,605.4	Est 4,505.0	(100.4)	-2.2%	
FY 2018-19 est	Sine Die 2017	4,798.5	Est 4,675.0	(123.5)	-2.6%	
Average Variance (37 years)				\$8.4		
Average: Below Estimate (16 years)				(\$113.6)	-5.0%	
Average: Above Estimate (21 years)				\$101.4		4.4%

Table 9 Cash Reserve Fund – Historical Balances

Fiscal Yr	Beginning Balance	Direct Deposit and Interest	Automatic Transfers	Legislative Transfers	Cash Flow	Ending Balance	Balance as % of revenue
FY1983-84	0	37,046,760	na	0	0	37,046,760	4.7%
FY1984-85	37,046,760	(1,472,551)	na	0	0	35,574,209	4.5%
FY1985-86	35,574,209	227,855	na	(13,500,000)	0	22,302,064	2.7%
FY1986-87	22,302,064	1,428,021	na	0	0	23,730,085	2.7%
FY1987-88	23,730,085	1,654,844	na	(7,700,000)	0	17,684,929	1.7%
FY1988-89	17,684,929	139,000	na	32,600,000	0	50,423,929	4.4%
FY1989-90	50,423,929	113,114	na	(10,500,000)	0	40,037,043	3.5%
FY1990-91	40,037,043	0	na	(8,100,000)	0	31,937,043	2.3%
FY1991-92	31,937,043	0	na	(5,000,000)	0	26,937,043	1.8%
FY1992-93	26,937,043	0	na	(9,500,000)	0	17,437,043	1.1%
FY1993-94	17,437,043	0	3,063,462	7,250,000	0	27,750,505	1.7%
FY1994-95	27,750,505	0	(8,518,701)	1,250,000	0	20,481,804	1.2%
FY1995-96	20,481,804	0	(20,481,804)	18,189,565	0	18,189,565	1.0%
FY1996-97	18,189,565	0	19,740,786	3,032,333	0	40,962,684	2.0%
FY1997-98	40,962,684	0	91,621,018	0	0	132,583,702	6.3%
FY1998-99	132,583,702	0	111,616,422	(98,500,000)	0	145,700,124	6.9%
FY1999-00	145,700,124	0	20,959,305	(24,500,000)	0	142,159,429	5.9%
FY2000-01	142,159,429	0	77,576,670	(49,500,000)	0	170,236,099	6.9%
FY2001-02	170,236,099	0	0	(60,170,000)	0	110,066,099	4.7%
FY2002-03	110,066,099	66,476,446	0	(87,400,000)	(30,000,000)	59,142,545	2.4%
FY2003-04	59,142,545	59,463,461	0	(61,577,669)	30,000,000	87,028,337	3.2%
FY2004-05	87,028,337	8,170,556	108,727,007	(26,758,180)	0	177,167,720	5.8%
FY2005-06	177,167,720	0	261,715,297	(165,266,227)	0	273,616,790	8.2%
FY2006-07	273,616,790	0	259,929,524	(17,458,523)	0	516,087,791	15.1%
FY2007-08	516,087,791	0	191,436,773	(161,978,767)	0	545,545,797	15.6%
FY2008-09	545,545,797	0	116,976,571	(84,330,505)	0	578,191,863	17.2%
FY2009-10	578,191,863	0	0	(110,990,237)	0	467,201,626	14.6%
FY2010-11	467,201,626	0	0	(154,000,000)	0	313,201,626	8.9%
FY2011-12	313,201,626	8,422,528	145,155,092	(33,439,198)	(4,461,676)	428,878,372	11.6%
FY2012-13	428,878,372	0	104,789,781	(154,008,427)	4,461,676	384,121,402	9.5%
FY2013-14	384,121,402	0	285,292,610	49,651,294	0	719,065,306	17.5%
FY2014-15	719,065,306	0	96,721,232	(87,951,112)	0	727,835,426	16.9%
FY2015-16	727,835,426	0	84,599,532	(81,779,850)	0	730,655,108	17.0%
FY2016-17t	730,655,108	0	0	(50,000,000)	0	680,655,108	16.0%
FY2017-18 Est	680,655,108	150,000	0	(243,230,772)	0	437,574,336	9.7%
FY2018-19 Est	437,574,336	0	0	(58,005,129)	0	379,569,207	8.5%
FY2019-20 Est	379,569,207	0	0	0	0	379,569,207	8.0%
FY2020-21 Est	379,569,207	0	0	(10,431,585)	0	369,137,622	7.5%

