HILGERS: All right. Thank you. Welcome everyone. This is a meeting of the Tax Rate Review Committee, which is a committee created by statute. It consists of myself as Chair of the Exec Board, the Speaker-- the speak-- the Chair of Revenue and the Chair of Appropriations. We'll do a quick round of introductions. My name is Mike Hilgers, Chair of the Exec Board. I represent District 21.

SCHEER: Jim Scheer, District 19, Speaker of the Legislature.

HILGERS: John?

STINNER: Yeah, John Stinner, District 48, all of Scotts Bluff County.

HILGERS: Senator Linehan, I believe, will be joining us by phone maybe any minute. And, Commissioner Fulton, would you like to introduce yourself?

TONY FULTON: Tony Fulton, Tax Commissioner.

HILGERS: Tax Commissioner is ex officio member of this committee. So we'll begin. We'll ask the fiscal analyst, Mr. Bergquist, to provide his presentation. Please go ahead.

TOM BERGQUIST: Yeah. Thank you. I want to thank everyone. It's kind of hard finding--

LOUD SPEAKER: The caller Lou Ann Linehan has joined the conference.

HILGERS: Senator Linehan?

LINEHAN: Yes. Good morning.

HILGERS: Good morning. We-- we just did a round of introductions. Your timing is perfect. So would you mind intro-- want to go ahead and introduce yourself?

LINEHAN: Senator Lou Ann Linehan, Chairman of the Revenue Committee, District 39.

HILGERS: Thank you very much. And Mr. Bergquist was about to begin his presentation. Mr. Bergquist, go ahead.

TOM BERGQUIST: Yeah. Good morning. I want to thank everyone for using-- agreeing to this time period. I know it's kind of hard for everybody's schedules in November, so I really do appreciate working with us on getting this hearing-- or meeting scheduled. I will work off of this report labeled "The Tax Rate Review Committee November of 2019." I sent copies to everyone earlier and I'll be working off of that copy, actually try to go through relatively quickly. I'll probably be working off of solely on page 2 and page 3. Page 2 is the financial status as we currently stand. Page 3, I kind of like to use Table 2, the chronology of the financial status, because it kind of walks to how we got from point A to B to C and the items which triggered that. So I'll stay with-- on page 3, I'll start with number one on that list shows the financial status on sine die of 2019. So when we left at sine die, current biennium, we were only $200,000-and-some above the minimum reserve. The out-year was $89 million. At your meeting in July, the-- which goes down the line 7, those items, you'll see '18-19 actual receipts came in $131 million more than forecast, and by law that all went to the Cash Reserve Fund. We also had factored in about $35 million of-- of lapsed appropriation authority. That was just an est-- a very conservative estimate at the time. Up to that point, we'd assumed 100 percent expenditure. So in July, we were plus $23 million for the current biennium, plus $121 million the out-biennium. In the October forecast, which is lines 8 through 10, you'll notice that the forecast went up $161 million in '19-20, fiscal year '19-20, and $105 million in '20-21. To a great extent, that simply kind of mirrors that '18-19 went up $131 million. All other things equal, it would basically push the next two years also up $131 million. So the bulk of the additional revenues that that forecast wasn't because they were forecasting higher growth. The base year just went up when '18-19 actuals went up. So the growth rates actually stayed about the same. It was the base year that that shot it forward. So that was where a lot of the additional revenues came from. By statute, the '20-- '19-20-- excuse me, the '19-20 forecast had already been certified at-- back at the sine die level. so the $161 million that the forecast went up would all go to the Cash Reserve Fund. Now that's-- it's estimated at this time, so it's not money in the bank yet, but it is-- based on these projections, it would-- it would go to the Cash Reserve Fund. That actually would take the Cash Reserve Fund up to $616 million, so it had virtually doubled from what we thought it would be at the end of sine die. We're getting the $131 million, which is money in the bank, and projected to get another 161, so the Cash Reserve Fund actually is coming up to a pretty good level. The $105 million, which was the second-year increase in the forecast, that actually stays in the General Fund and that's why you'll see the plus $23 million for the current biennium went to a plus 125. So that's where we stood at the end of the forecast. Subsequent to that, there's been items, lines 12 through 16. The first one is the actual lapse of unexpended funds. If you remember, I said in July we had plugged in a $35 million estimate. Actually, we thought it would be significantly higher but didn't really want to factor it in until all encumbrances had been certified and it became an actual number. The actual number was actually $74 million of lapsed appropriations, so that's why you'll see a plus $39 million there. We'd already factored in the first 35. This-- we gain another 39 to get the total lapses to $74 million. Now I first looked at that and I said that's-- that's a lot of un expended General Funds. Then when I looked at it, that's actually at the end of the two-year biennial budget. So we have-- over the two years you have basically $8.5 billion dollars of appropriations. So when you lapse $74 million out of 8.5 at the end of the two-year biennium, it's 0.8 percent. So we basically spent 99.2 percent of the appropriation. So I wanted to throw that in because at first blush it's like, my goodness, $74 million, that's-- that's a lot of money that we over budgeted; on the other hand, it's less than a 1 percent variance over the two years. I think that kind of helps put it in a little bit of perspective. The second major item which happens, and that'll be in line 14, we got the request for midbiennium adjustments and deficits. Page 5 has a complete listing of all the items. What I factored into the status is not the entire amount that had been requested. To be perfectly frank, there was quite a few items that had come in that, to some extent, they had been considered and reviewed last session as new items and had not been funded and they came-- they came back in as a midbiennium request. So I-- I did not include those in the projected status. They'll-- they'll be considered and looked at, but for my purposes of creating the status, we only included those which are-- which to some extent fall in the category as of half the dues. In a nutshell, if you look at line 14, one thing I forgot to mention before I started on this table, it can get a little bit confusing because this table is showing what's the impact against available funds. So when I look at line 14, and you see the minus 53.6, that's actually the $53 million of an increased appropriation for the flood damage. The reason it shows up as a negative is because it actually uses money; it takes away from the available funds. So an increase in expenditures actually will show up as a negative here because it's using the available funds. When you get in the second year, you'll see a plus 22, an ongoing, going-out plus 22. That's basically a $27 million savings in child welfare due to the new private contractor in the Douglas/Sarpy County area. That had come in as a 20-- a $6 million reduction in the current year and a $27 million ongoing reduction. So to a great extent, that line 14 is, for the most part, those two items. The last thing, on line 15, by statute the Department of Education, our office, the Governor's Budget Office, and the Property Tax Administrator are required to meet and review our TEEOSA estimates and come up with new TEEOSA estimates going into the next biennium. After that meeting, the current estimate went up about $12 million in our estimate from what's currently budgeted. The two out-years actually dropped in the $40 million range. One of the reasons for that is on an ongoing basis, we use a 4 percent estimate for school spending growth. That has kind of been the 40-year average. Whenever we get, instead of using 4 percent, we now have a budget to budget growth from budgets just turned in, and we substitute that. Because there is a two-year lag, it doesn't affect until the out-biennium. But that came in at 2.8 percent instead of 4 percent. So for each 1 percent on the spending side is about $40 million on school, on TEEOSA state aid, all other things being equal. So that $40 million reduction basically reflects a 2.8 spending growth versus a 4 percent. So that's why that one went down. When it's all said and done, the amount of available funds, which is in line 17 and also shows up in the financial status in line 29, we're plus $126 million above the minimum reserve in this biennium; projected almost $404 million above the minimum reserve in the out-biennium. Just a way of looking at in terms of what that can handle, you could do up to $126 million this biennium in terms of budget adjustments on top of what we have built into our financial status and still balance this year. The outyear, the $404 million, that basically has to fund whatever you do for three years. So if you simply take the 404 and divide it by 3, I could do $135 million and that would stay at 135 each of the three years. That would use up the $400 million. So you could-- the 135 wouldn't fit this year, but just as a guideline, an average over the three years. So that's not increasing it every year. It's staying at the 135. The other reason I would say that the 135 number is relatively sustainable is if you go to the financial status on page 2 and look at line 36, what we use on that is-- is we call that a structural balance. It actually compares an ongoing revenue stream versus an ongoing appropriations side. The reason we separate the ongoing is I could-- I could actually afford and balance a budget by drawing down the General Fund balance if we have a high cash balance, or I can bring money in from the Cash Reserve Fund. That would show up as available funds, but it would not change the structural balance.

When you look at this line and we get into that fourth year, we actually have a plus 138 structural balance. So going back to what I said, you could do $135 million as an ongoing each year. That would balance the out-biennium; it also would stay within that structural balance there. So it covers it two different ways. So that's kind of where we're at. I had jotted down a couple notes. When I look at the status, on the positive side, not only just being plus 400, but if you look on the revenue growth side, '18-19 was a very high revenue growth. It was an 8.7 percent adjusted rate and base. Subsequent to that, the next four years averaged 3.2 percent. It's 2.92 percent and then 4 and 4. So we're really-- in essence, balancing this $400 million at the end of that last year is based on an average 3.2 revenue growth. So it's actually very modest and it's actually below average. And even that second year, in '20-21, it's at a 2 percent rate and base adjusted growth. That's-- that's not a deep recession, but that's getting to a level of revenue growth that's-- it's less than half of the norm-- of an average. So it's-- the positive part is this financial status is not built off of extremely high revenue growths, very modest revenue growths. The only higher revenue growth that occurred in this whole status is the year that's actually in the bank. So that's-- to me, that's a very positive sign is it's-- the status isn't made up by having to use 7 or 8 percent growths in those outyears. On the downside, this is where Appropriations Committee Chairs always say I have more on the downside than the positive side, this time not necessarily. On the downside, one thing that's a little uncomfortable is of that $400 million that's available, $81 million of that comes from that child welfare savings. I incorporated it into the status, but we still have some question of whether that's going to be there the entire four years. There's been a lot of question marks even up to this point and before they have signed the contract. So this was their request. We've built it in. We'll-- we'll see. It was kind of interesting when I went and I used this, the report from two years ago as kind of a basis to do this report, and in the list of midbiennium requests, the highest number was $62 million shortfall in child welfare. So now basically the highest number is a 20-- is a $27 million-per-year decline, so not sure which one was right and which one was wrong. The other downside is in projecting out-biennium, I've used 2.5 percent on salaries and that's applied everywhere. The only thing I have included in this, it's a pure continuation, so it has 2.5 percent salaries; there's $3 million for the operating expenses for a new hundred-bed unit out at corrections. And other than some per-diem additional cost, that's it in there for corrections. So there's--

anything that does a lot for salaries above and beyond a 2.5 percent, that's not factored into this status. So that, in essence, would all have to come out of the $400 million down the road. Now by the time a year from now when we actually start building that next biennium, we'll start all over again. But just a cautionary, there's nothing really built in that out-biennium to really do a lot on correctional stuff. With that, I'll-- I'll stop. We're in pretty good shape.

HILGERS: All right. Thank you for the presentation. Any there any questions for Mr. Bergquist? No. See--

LINEHAN: I-- I had a quick question.

HILGERS: Senator Linehan, please, go ahead.

LINEHAN: Thank you, Senator Hilgers-- Chairman Hilgers. So, Tom [INAUDIBLE]

HILGERS: Can-- hold one one-- can you hear? Can you hear her, Tom?

TOM BERGQUIST: I'm having a little bit--

HILGERS: One second. One second, Senator Lenihan.

LINEHAN: OK.

HILGERS: The volume is a little low.

LINEHAN: [INAUDIBLE]

TOM BERGQUIST: There we go.

HILGERS: There we go. OK. Please go ahead. Sorry.

LINEHAN: OK. I'm just not sure which line. It was the TEEOSA and I think it was on the second chart. Did you say you used 4 percent growth for school spending?

TOM BERGQUIST: Yes. When-- when-- when we don't have any basis to do estimates, there is a two-year lag. So what affects the '21-22 number is what's currently budgeted. When we don't have any sort of budget-to-budget number or any other number, we'll use a 4 percent estimated just because that had been about the 40-year average. So in the absence of having--

LINEHAN: So are you saying-- so is that 4 percent, that's based on what they actually spend?

TOM BERGQUIST: Right, what-- what the actual dis--

LINEHAN: [INAUDIBLE]

TOM BERGQUIST: Right, what the actual disbursements have been on the annual financial report for the last 35 years or 40 years.

LINEHAN: So can I take from that for the last 35 years, school spending, K-12, has gone up on an average 4 percent a year?

TOM BERGQUIST: Right. Right. Now it's gone-- it's slowed down significantly in the last ten years.

LINEHAN: Right. All right. I realize that.

TOM BERGQUIST: But-- but, yes, but-- but over the last 20 to 30 years, yes, that's-- it's been right around 4 percent.

LINEHAN: So when you-- so I don't know if I'm looking at the right line, line 22 on the first chart. So when you have it in parentheses over here, does that mean our funding for TEEOSA will drop the $39, almost $40 million, and then $48.5 million?

TOM BERGQUIST: It-- it will--

LINEHAN: [INAUDIBLE] pay out less for TEEOSA?

TOM BERGQUIST: It will drop from what had been built into the projection at the time. It's not a reduction in TEEOSA; it lowers the estimate. I can't recall right off the top. I think I have--

LINEHAN: Because what I'm wondering, Tom, is if we're lowering the estimate, is that because property values are going up?

TOM BERGQUIST: Well, the reason the estimate went down $40 million is because we had assumed a 4 percent spending growth.

LINEHAN: Sure.

TOM BERGQUIST: And that, that becomes the determinant factor of needs in the formula. So instead of going up-- needs going up 4 percent, needs are only going up 2.8 percent based on the budget, the budget that we substituted for that plug 4 percent. So that dropped needs down. Instead of needs growing at 4 percent, we're now having them grow at 2.8 percent. And for each 1 percent on school spending is about $40 million. Someone everything else all the way down the line stays the same, if my needs go down $40 million, my TEEOSA went down $40 million. So that's-- and it's not--

STINNER: [INAUDIBLE] Senator Linehan, there is detail on page 6. They broke down-- breaks down all of his calculations in there--

TOM BERGQUIST: Oh, OK.

STINNER: --like in the [INAUDIBLE] for you to just kind of work through that.

TOM BERGQUIST: Yeah.

STINNER: I think also embedded above that is commentary on the 4 percent to 2.83 percent, so--

TOM BERGQUIST: Thank you, Senator.

STINNER: --those are assumptions that Tom is making. What actually happens may differ.

TOM BERGQUIST: Yeah, even with little--

LINEHAN: Tom, no, I didn't--

TOM BERGQUIST: No, go ahead. I'm sorry.

LINEHAN: I-- it's been-- obviously from, you know, what we're trying to do with property taxes is important because that's where I look at too. School spending has slowed over the last five or six years. What I don't know, is that because they don't have-- they don't have the money because a lot of them are up against a lid or is it-- is it because-- it's probably a combination.

TOM BERGQUIST: Yeah.

LINEHAN: [INAUDIBLE] their funding has kind of been topped out and the fact that they don't-- [INAUDIBLE] is not going up as bad because inflation has been less than 2 percent for most of the last eight years?

TOM BERGQUIST: Right. And this-- in this case, one of the reasons it dropped down to 2.8 percent was because OPS was very low. OPS is only about a half a percent in their budget-to-budget growth, so--

LINEHAN: Well [INAUDIBLE] we don't have any money.

TOM BERGQUIST: So that pulled it down. I-- and I have no idea if that relates to anything with their ARC payment that required or not.

LINEHAN: Well, let me put it a different way. They had to put, whatever, $27 million in the ARC because--

STINNER: Both of them.

LINEHAN: --they're up against their lid.

TOM BERGQUIST: Yeah. So that-- that kept-- that pushed the total down pretty good.

LINEHAN: Yeah, that's very helpful. And thank you, Chairman Stinner, for pointing out the [INAUDIBLE]

TOM BERGQUIST: Yes, I-- I forgot I had that detail there. Sorry.

HILGERS: Thank you, Senator Linehan. Senator Stinner, do you have anything to add?

STINNER: You know, I read through this with Tom in fairly good detail, and so I do not have anything to add. I-- I will probably try to address this, actually review analysis in the Legislative Council. So--

TOM BERGQUIST: We'll--

STINNER: --we'll try to get some of this addressed [INAUDIBLE]

TOM BERGQUIST: All right. We'll take copies of this and--

STINNER: --all the members of the Legislature.

TOM BERGQUIST: --bring them along to Nebraska City.

HILGERS: Great. Thank you very much. Well, seeing nothing-- no other questions, I'll leave it open for any motions from the committee under statute that if the-- any tax rate change would be suggested, we could petition the Governor for a special session. So seeing no motion for that, the only-- the only last item on our agenda is, Mr. Bergquist, you'll file a final electronic copy of this report pursuant to statute with the legislative--

TOM BERGQUIST: Right.

HILGERS: --with the Clerk?

TOM BERGQUIST: Right. Statute says we have to file an annual report. Basically, we just take what-- the report that we submitted in July plus this report and combine them into-- to one electronic document that's sent to the clerks.

HILGERS: OK, great. Thank you. With that, we are adjourned. Thank you.