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Tax Rate Review
July 23, 2014

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The Tax Rate Review Committee met at 1:30 p.m. on Wednesday, July 23, 2014, in Room 1003 of the State Capitol, Lincoln, Nebraska. Senators present: John Wightman, Chairperson; Greg Adams; Heath Mello; Galen Hadley. Others present: Tax Commissioner Kim Conroy, Fiscal Analyst Michael Calvert, and Tom Bergquist. Absent: Patrick O'Donnell.

SENATOR WIGHTMAN: Well, with that we'll go ahead and open the meeting. Welcome, everybody. And with that, I'll ask Mike Calvert to give us the information with regard to what he's already passed out. So, Mike.

MICHAEL CALVERT: (Exhibit 1) Okay. For the record, my name is Michael Calvert, Legislative Fiscal Analyst. I will be referring to the report that we distributed to you about a week ago. This is the first in the calendar year meetings that are required by statute for this committee to meet--your next meeting will be in November--and it gives us all a snapshot of financial conditions after certain time periods and thresholds are met. For example, the July meeting is timely in the sense that it takes assumed levels of revenue and expenditures for the fiscal year we just closed out and bring those all up to date for the actual close of the fiscal year, plus and minus some adjustments. So it gives us an idea as to whether the fiscal year end caused any problems or really was kind of a neutral situation as far as what actually happened this year. The financial status on page 3 of the report brings everything up to date for the multiyear period that we're looking at and giving estimates into the next biennial period. Line 3, it shows a decline and a minimum reserve requirement that we are about \$4.5 million short as compared to sine die where we were about \$2.5 million above minimum reserve. General revenues adjusted for growth rate or adjusted for tax rate and base changes for the fiscal year in the third column, 4.8 percent on line 29. So it's a very moderate revenue growth rate that we saw for the fiscal year just ending and very close to the growth rate in the prior year. One question inevitably is the status of our Cash Reserve Fund, which

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is on the bottom of page 3. What I would call the unobligated Cash Reserve Fund balance is projected to be about \$707.8 million starting in fiscal '14-15 and continuing on under current law, assuming there's no further transfers. If you go to page 4, that's probably the simplest way just to transition from sine die status to where we are currently. As I mentioned at sine die, our estimate at the time was \$2.1 million above the minimum reserve for the biennium ending June 30, 2015. Projecting into the future, we were projecting a negative balance that was under the minimum reserve by about \$170 million. How did that all change since the close of the fiscal year? There were some adjustments for carryover obligations, net receipts above estimate, automatic transfer out of \$14.4 million to the Cash Reserve Fund. Accounting adjustments, which are itemized below, of about \$10.9 million, and several other smaller items resulting in the transition from a \$2.1 million above minimum reserve to a \$4.5 million below the minimum reserve. The accounting adjustments, we have a certain amount of those every year. They are variable as to size. A couple of them I think we have worked out with the Department of Revenue and the State Accounting Office to where we won't have these adjustments into the future, and that's the first two items, the convention center transfer and the sports arena support transfer. We never build those in because there was always uncertainty as to what those dollar amounts were going to be. I think we feel a bit more comfortable in estimating those, number one; and number two, we had to have some changes in the accounting system in order to properly account for and track those transactions. So in future years, in June, we probably won't have those adjustments, and those tend to be the larger of the adjustments. Some of the other adjustments relate to accounting issues between fiscal years. But all told, \$10.9 million of adjustments is by far the largest single adjustment. Overall, the financial picture is quite good, at least for the current fiscal year. We do project into the next biennium a potential for a negative balance below the minimum reserve.

SENATOR MELLO: Hello.

MICHAEL CALVERT: Senator Mello.

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SENATOR WIGHTMAN: Hello, Senator Mello.

SENATOR MELLO: Yes.

SENATOR WIGHTMAN: We've started a little bit already, but...

SENATOR MELLO: Okay.

SENATOR WIGHTMAN: ...jump in if you have any questions.

SENATOR MELLO: I'm following along right now with my book.

SENATOR WIGHTMAN: Okay.

MICHAEL CALVERT: Senator Mello, this is Mike Calvert. I'm on page 4, going through the changes for the financial status, and I'm just about to finish. I've gone through the adjustments and made...

SENATOR MELLO: Okay.

MICHAEL CALVERT: ...made the observation that at least for the current biennium we're at or very near the minimum reserve requirement. Given current projections, there is a negative projection of \$176 million below the minimum going into the next biennium, but that is based on estimates. It is not based on actual budget requests. And plus, revenue forecasts will be brought forward in October for the first time for that biennial period, so we'll have a more formal and, quote, official estimate, if you will, at that time when this committee meets in November. And that is pretty much the financial outlook. It's positive.

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SENATOR WIGHTMAN: Okay. Are there any questions that anybody has...

SENATOR HADLEY: Mike, on...

SENATOR WIGHTMAN: ...that Mike might be able to answer? Go ahead.

MICHAEL CALVERT: Yes, Senator.

SENATOR HADLEY: ...the "Error in Object 814200,"...

MICHAEL CALVERT: Yes.

SENATOR HADLEY: ...what was that?

MICHAEL CALVERT: There were literally thousands...

TOM BERGQUIST: There's about...

MICHAEL CALVERT: ...of transactions.

TOM BERGQUIST: There's about 10,000 transactions a month in this one account and it's handling where you get refunds and over from a prior year and account balance changes. What had appeared to happen, there's a whole bunch of them were like \$34 and some cents. There was an error in one of them. What happened is it will get corrected the following month, but it crosses a year. So it will make up for it. It was just a quirk. Normally, they get corrected right away if they catch an error in basically a typing error.

MICHAEL CALVERT: And once in a while we have these. It's not us; I mean the accounting system. There will be irregularities that straddle fiscal years and there will be

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an offsetting adjustment in the next year.

TOM BERGQUIST: Right. It's not that somebody didn't catch it or miss it. It just...

SENATOR HADLEY: (Inaudible).

TOM BERGQUIST: ...it (inaudible) in June and they correct it in July and it crosses a fiscal year.

SENATOR WIGHTMAN: But certainly no need to take any action at this point.

MICHAEL CALVERT: Not in my opinion.

SENATOR WIGHTMAN: Anybody else have questions? If not, is there any motion?

SENATOR HADLEY: Move to accept the report.

SENATOR WIGHTMAN: Okay. Do I have a second? I'll second it.

SENATOR ADAMS: Could you repeat the motion? This is Adams. I (inaudible) hear.

SENATOR WIGHTMAN: The motion was to accept the report.

SENATOR ADAMS: Okay.

MICHAEL CALVERT: Yeah. Practically speaking, you do not have to do anything,...

SENATOR WIGHTMAN: Don't have to do anything.

MICHAEL CALVERT: ...but it's your choice.

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SENATOR WIGHTMAN: We'll...

SENATOR HADLEY: If we don't have to do anything,...

SENATOR WIGHTMAN: You'll withdraw the motion?

SENATOR HADLEY: ...I will withdraw the motion.

SENATOR WIGHTMAN: Okay. The motion has been withdrawn so there really is nothing further to do. We need a motion to adjourn.

SENATOR HADLEY: So moved.

SENATOR WIGHTMAN: I'll second that one. All in favor say aye. Opposed? Motion carried. We are adjourned.

MICHAEL CALVERT: Thanks.