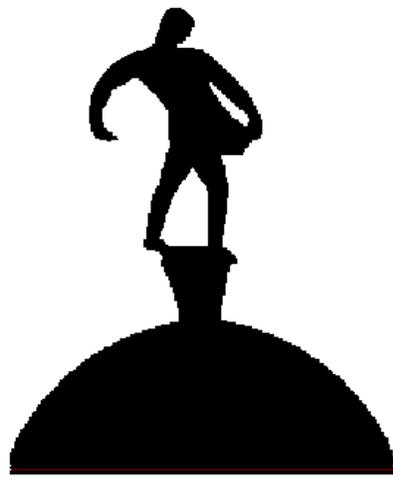


# **Tax Rate Review Committee**



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

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

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

**Prepared by the Legislative Fiscal Office  
November 19, 2014**

# Summary

This report includes a current projected General Fund Financial Status for the upcoming FY2015-16 and FY2016-17 Biennial Budget. This biennium had been shown as the “out years” in previous financial status. For planning purposes, this report also incorporates a new estimated financial status for the “out years” bringing in the FY2017-18 and FY2018-19 biennium. Assumptions for construction of the status for the upcoming biennium and estimates for the following biennium are discussed individually later in this report

These estimates are based on (1) current law, (2) October Forecast Board projections for FY15, FY16 and FY17, (3) revenue projections for the following biennium using the “historical average” methodology, and (4) an initial pre-session assessment of General Fund appropriations under current law using both agency requests and historical trends.

## Projected Shortfall

The projected financial status shows an ending balance \$50.1 million ***below*** the minimum reserve for the upcoming FY15-16 / FY16-17 biennial budget. This projected “shortfall” declines slightly to \$33 million in the following biennium, FY17-18 / FY18-19 biennium. The projected status shows a relatively even balance between on-going revenues and appropriations with a positive gap shrinking as “out year” revenue growth drops below average.

## Revenue Growth

Revenue growth (adjusted for rate and base changes) is modest over the three years, very close to the 33 year average. Revenue estimates for FY2014-15, FY2015-16, and FY2016-17 are the October 2014 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by these current forecasts is 6.3% in FY14-15, 5.1% in FY15-16 and 4.8% in FY16-17.

For the “following biennium”, revenue growth is calculated at 3.8% per year using the historical average methodology. The target growth is the historical average of 5.0% but adjusted down to 4.75% to exclude growth that is now negated by indexing of the income tax brackets. These calculated amounts are at the low end of preliminary, unofficial estimates prepared by the Nebraska Dept. of Revenue (NDR) and Legislative Fiscal Office (LFO) using IHS Economics and Moody’s forecasting information.

## Spending Growth

For purposes of this projected status, spending growth is not derived based on what results in a balanced budget but is our best estimate of the costs of maintaining existing programs and services. These estimates reflect a basic continuation budget, including only those increases related either to entitlement programs, legislative intent, or costs to implement previously enacted legislative actions and reflect existing statute and policies. This then provides a benchmark from which policy makers can examine the changes to statute and policy choices that are necessary to then actually balance the budget.

In many cases, the projected increases for the upcoming biennial budget (FY15-16 and FY16-17) reflect agency requests for the items shown while estimated increases for the following biennium (FY17-18 and FY18-19) are based on historical trends. No new or expanded programs are included. *In many cases, rationales for the FY16 and FY17 requests are incomplete as these requests are currently under analysis.*

Overall the projected budget results in a budget growth of 4.6% in FY2015-16 and 2.9% in FY2016-17, a 3.7% two year average. To some extent, this relatively low growth reflects a 2.1% average growth in TEEOSA school aid, the single largest item in the General Fund budget. Medicaid is the second largest item and has a two year average growth of 7.6% largely driven by a reduced federal match rate in FY15-16.

*This projected budget includes no new funds related to prison population and reform at this time and in fact includes a base reduction to remove the \$4.2 million funding for housing inmates in county jails added last session. At that time this was considered one-time as longer term solutions were to be addressed as part of the prison population reform under LB 907. The Nebraska Justice Reinvestment Working Group was created in LB 907 to work with the Council of State Governments Justice Center to conduct a study on and provide recommendation to help address the prison overcrowding and reform. At this time the study is on-going.*

<b>Projected Increase to FY15 Base Year</b>	<b>FY2015-16</b>	<b>FY2016-17</b>	<b>Two Yr total</b>	<b>% of Total</b>
Medicaid (other than FMAP)	50,834,485	89,776,328	140,610,813	28.2%
Federal Medicaid Match rate (op & aid)	35,048,141	40,891,678	75,939,819	15.2%
TEEOSA Aid to Schools (General Funds only)	25,719,269	38,434,187	64,153,456	12.9%
General Increase (University+Colleges)	19,953,636	39,997,975	59,951,611	12.0%
Salaries+Health Insurance (Agencies)	17,874,976	36,725,347	54,600,323	11.0%
Hepatitis C medical costs (Corrections)	11,660,176	13,059,397	24,719,573	5.0%
Special Education	5,344,199	10,822,003	16,166,202	3.2%
Juveniles, court jurisdiction - LB464 (Courts)	2,970,373	12,071,602	15,041,975	3.0%
Public Assistance (other than FMAP)	5,000,756	9,386,254	14,387,010	2.9%
Funds shifts (DHHS)	6,770,994	6,933,314	13,704,308	2.7%
Homestead Exemption	5,179,000	7,479,000	12,658,000	2.5%
Developmental Disability aid (other than FMAP)	4,162,916	8,249,722	12,412,638	2.5%
Inmate per diem costs - Medical & other (Corrections)	4,958,453	7,119,872	12,078,325	2.4%
Behavioral health aid (restore base cut)	5,000,000	5,000,000	10,000,000	2.0%
Community Colleges	3,287,488	6,690,038	9,977,526	2.0%
Child Welfare aid (other than FMAP and IV-E disallow ance)	2,757,134	5,470,595	8,227,729	1.7%
Fed penalty, behavioral health MOE (DHHS)	3,420,695	2,727,748	6,148,443	1.2%
Childrens Health Insurance (expanded match rate, ACA)	(14,100,000)	(19,400,000)	(33,500,000)	-6.7%
Resources Development Fund (one-time & complete projects)	(10,492,793)	(13,046,608)	(23,539,401)	-4.7%
Use of county jail housing (Corrections)	(4,226,625)	(4,226,625)	(8,453,250)	-1.7%
All Other	6,202,733	6,990,784	13,193,517	2.6%
<b>Total</b>	<b>187,326,006</b>	<b>311,152,611</b>	<b>498,478,617</b>	<b>100.0%</b>
Annual Percent Change	4.6%	2.9%	3.7%	

## Cash Reserve Fund

A bright spot in the financial status is the fact that the unobligated ending balance in the Cash Reserve Fund is projected at \$769 million. This projected General Fund financial status and projected shortfall does not assume any of use of these monies other than that which is in current law and has been subtracted out to achieve the unobligated balance. Note that of this unobligated balance, \$707.5 million is "cash in the bank" while the other \$61.5 million depends on whether the FY2014-15 forecast is met or exceeded.

The relatively high balance in the Cash Reserve Fund (CRF) raises the question; is this balance too high? Should the balance be reduced and if so in what manner and by how much? Last session the Appropriations Committee followed the concepts that (1) a significant balance should be retained in the Cash Reserve Fund in light of the cyclical nature of variances from forecast and the dollar level of those variances cumulative over several years (see appendix A), and (2) any use of the Cash Reserve Fund should be for one-time items to match the one-time nature of the financing source.

## **FY2014-15 Deficits**

Requests for FY2014-15 supplemental General Funds (aka deficits) total \$50.1 million for FY2014-15. The largest is \$16.5 million for the IV-E disallowance in DHHS and \$11.8 million for inmate medical costs. A complete listing of deficits is included in Appendix B.

## **Budget Risks**

While the projected shortfall shown in the financial status as presented here appears to be relatively small and able to be addressed without many problems there are quite a few issues that aren't addressed here. Most of these relate to policy decisions that do not fit the criteria for developing this budget scenario.

As noted under the "Spending Growth" section, nothing is included regarding the prison overcrowding or reform issue including prison construction.

This projected status does not include any funding for state claims. There could be substantial claims with respect to water litigation and correctional issues.

Other than the small increase in TEEOSA school aid under the existing statutory formula, this projected budget includes nothing for additional property tax relief.

The Cash Reserve Fund contains a large unobligated balance and is an inviting target as a funding source for new and expanded items. The concern is that the Cash Reserve Fund, similar to an individual savings account, is a one-time source of funds. If used to finance an on-going budget action (either revenue or spending items) the key question is how to finance that budget action after the Cash Reserve Fund monies are gone ?

# Projected General Fund Financial Status

	Current Yr FY2014-15	Upcoming Biennium FY2015-16    FY2016-17		Following Biennium FY2017-18    FY2018-19	
<b>1 <u>BEGINNING BALANCE</u></b>					
2 Beginning Cash Balance	673,683,437	257,763,908	163,062,372	210,034,231	245,265,259
3 Cash Reserve transfers-automatic	(96,721,233)	(61,500,000)	0	0	0
4 Carryover obligations from FY14	(307,226,328)	0	0	0	0
5 Lapse FY15 reappropriations	0	0	0	0	0
6 Allocation for potential deficits	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	269,735,876	191,263,908	158,062,372	205,034,231	240,265,259
<b>8 <u>REVENUES</u></b>					
9 Net Receipts (Oct 2014 NEFAB+hist avg)	4,282,000,000	4,418,000,000	4,622,000,000	4,797,000,000	4,955,000,000
10 General Fund transfers-out (current law)	(188,350,000)	(153,050,000)	(153,050,000)	(153,050,000)	(153,050,000)
11 General Fund transfers-in (current law)	in forecast	0	0	0	0
12 Cash Reserve transfers (current law)	50,500,000	0	0	0	0
13 2015 Cash Reserve transfers	0	0	0	0	0
14 2015 General Fund transfers-out	0	0	0	0	0
15 2015 General Fund transfers-in	0	0	0	0	0
16 2015 Revenue Bills	0	0	0	0	0
17 General Fund Net Revenues	4,144,150,000	4,264,950,000	4,468,950,000	4,643,950,000	4,801,950,000
<b>18 <u>APPROPRIATIONS</u></b>					
19 Appropriations (2014 Session)	4,105,825,530	4,105,825,530	4,105,825,530	4,105,825,530	4,105,825,530
21 2015 Mainline Budget Actions	50,296,438	187,326,006	311,152,611	311,152,611	311,152,611
20 Projected budget increases, following biennium	--	--	--	186,740,831	377,000,762
22 2015 State Claims	0	0	0	0	0
23 2015 "A" Bills	0	0	0	0	0
24 General Fund Appropriations	4,156,121,968	4,293,151,536	4,416,978,141	4,603,718,972	4,793,978,903
<b>25 <u>ENDING BALANCE</u></b>					
26 Dollar ending balance (per Financial Status)	257,763,908	163,062,372	210,034,231	245,265,259	248,236,356
27 Dollar ending balance (at Minimum Reserve)			260,101,861		281,240,803
28 Excess (shortfall) from Minimum Reserve			(50,067,630)		(33,004,447)
29 Biennial Reserve (%)			2.4%		2.6%
<u>General Fund Appropriations</u>					
30 Annual % Change - Appropriations (w/o defici)	7.0%	4.6%	2.9%	4.2%	4.1%
31 Two Year Average	6.3%	--	3.7%	--	4.2%
<u>General Fund Revenues</u>					
32 Est. Revenue Growth (rate/base adjusted)	6.3%	5.1%	4.8%	3.8%	3.8%
33 Two Year Average	5.4%	--	5.0%	--	3.8%
34 Five Year Average	6.6%	--	5.7%	--	4.8%
35 <u>On-Going Revenues vs Appropriations</u>	(98,471,968)	(28,201,536)	51,971,859	40,231,028	7,971,097

<b>CASH RESERVE FUND</b>	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Beginning Balance	719,065,306	707,521,080	769,021,080	769,021,080	769,021,080
Excess of certified forecasts (line 3 in Status)	96,721,233	61,500,000	0	0	0
To/from Gen Fund per current law	(50,500,000)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(57,515,459)	0	0	0	0
2015 Session - To General Fund	0	0	0	0	0
2014 Session - To NCCF	0	0	0	0	0
Projected Unobligated Ending Balance	707,521,080	769,021,080	769,021,080	769,021,080	769,021,080

# Chronology of Projected Financial Status

(millions of dollars)	FY14 / FY15 Biennium	FY16/FY17 Biennium	FY18/FY19 Biennium
<b>Variance from Minimum Reserve: Sine Die 2014 Session</b>	<b>2.2</b>	<b>(170.1)</b>	<b>NA</b>
1. Carryover obligations from FY12-13	1.5	1.5	--
2. FY14 Actual vs Est General Fund Net Receipts	16.9	16.9	--
3. FY14 Actual vs Est CRF transfers-automatic	(14.4)	(14.4)	--
4. FY14 Actual vs Est Accounting adjustment	(11.0)	(11.0)	--
5. Change in Minimum Reserve	0.2	0.2	--
<b>Variance from Minimum Reserve: TRR July 2014</b>	<b>(4.6)</b>	<b>(176.8)</b>	<b>NA</b>
6. Revenue Forecasts (revised / original Oct 2014)	61.5	179.2	--
7. "Above certified" FY15 forecast to CRF	0.0	(61.5)	--
8. Change in Minimum Reserve	0.0	(3.4)	--
<b>Variance from Minimum Reserve: NEFAB Oct 2014</b>		<b>(62.5)</b>	<b>--</b>
9. Deficit requests vs \$5M	(45.3)	(45.3)	--
10. Revised estimate of FY16/FY17 projected budget (2 yr total)	0.0	56.4	--
11. Change in Minimum Reserve	0.0	1.3	--
<b>Variance from Minimum Reserve: TRR Nov 2014</b>		<b>(50.1)</b>	<b>(33.0)</b>

## NOTES:

### Item 6 Revised Revenue Forecasts:

Revised NEFAB forecast for FY14-15	\$61.5 million
Original NEFAB forecasts vs LFO Prelim for FY15-16	60.7 million
Original NEFAB forecasts vs LFO Prelim for Y16-17	57.0 million
Three Year Total	179.2 million

### Item 10 Revised Estimated Spending versus Planning Numbers (millions of dollars)

<u>Item</u>	<u>FY15-16</u>	<u>FY16-17</u>	<u>Total</u>
Revised TEEOSA aid estimates (Oct 2014 Joint Meeting)	32.5	62.3	94.8
Homestead exemption (3% to request)	(1.7)	(1.5)	(3.2)
Resources Development Fund (reduction to completed projects)	0.0	2.6	2.6
Medicaid (7.5% to adjusted request)	(6.6)	19.2	12.6
Public Assistance+Child Welfare (3% to 4% to adjusted request)	1.6	4.1	5.7
Behavioral health (base restoration + delete future savings est)	(10.0)	(15.0)	(25.0)
Behavioral health (potential maintenance of effort penalty)	(3.1)	(2.4)	(5.5)
Developmental Disability aid (3% to transition only)	(3.4)	(3.7)	(7.1)
DHHS fund shifts	(4.5)	(6.9)	(11.4)
Inmate per diem costs (3% vs request)	(15.3)	(17.4)	(32.7)
Overtime (Corrections)	(1.4)	(1.4)	(2.8)
Operations cost increases (est to 24/7 facility request)	4.9	10.1	15.0
Health insurance, University+Colleges (10% vs request)	3.1	7.3	10.3
Capital construction to reaffirmation only	0.0	0.0	0.0
Revised estimate of budget increases, all other	1.0	2.1	3.1
<b>Total</b>	<b>(2.7)</b>	<b>59.2</b>	<b>56.4</b>

# Cash Reserve Fund

The Cash Reserve Fund (CRF) is not included as part of the "General Fund Reserve" (which is the ending General Fund balance for a biennium) and was created as a separate and distinct fund to cover cash flow needs within a month or several month period. The Cash Reserve Fund also serves as a "rainy day fund" in that revenues in excess of a "certified forecast" are transferred from the General Fund to Cash Reserve fund at the end of a fiscal year. As the certified forecast is basically the revenue estimate at Sine Die when the budget is finalized, these transfers sequester revenues in excess of that which is needed to balance the budget.

Budget actions related to the Cash Reserve Fund in the 2014 Session followed the concepts that (1) at this time a significant balance should be retained in the Cash Reserve Fund in light of the cyclical nature of variances from forecast and the dollar level of those variances cumulative over several years, and (2) any use of the Cash Reserve Fund should be for one-time items to match the one-time nature of the financing source.

The projected unobligated ending balance at the end of the current FY14/FY15 biennium based on current forecasts and 2014 session actions is \$707.5 million and would increase to \$769.0 million ***if*** FY2014-15 receipts reach the current forecast level.

Table 1 - Cash Reserve Fund Cash Flow

	Estimated FY2014-15	Estimated FY2015-16	Estimated FY2016-17	Estimated FY2017-18	Estimated FY2018-19
Beginning Balance	719,065,305	707,521,079	769,021,079	769,021,079	769,021,079
Excess of certified forecasts (line 3 in Status)	96,721,233	61,500,000	0	0	0
To Gen Fund per current law	(50,500,000)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(57,515,459)	0	0	0	0
2015 Session Transfers	0	0	0	0	0
Ending Balance	707,521,079	769,021,079	769,021,079	769,021,079	769,021,079

The relatively high balance in the Cash Reserve Fund (CRF) raises the question; is this balance too high? Should the balance be reduced and if so in what manner and by how much? To try and address the issue of what the balance should be, we first look at what is the purpose of the Cash Reserve Fund. The major purpose of the fund is to provide protection against forecast errors. Monies are accumulated in the CRF when receipts exceed certified forecast levels and are then available to offset instances when receipts are below forecasts.

The level of "protection" or in other words the level of funds to retain in the Cash Reserve fund, can be derived by looking at historical variances 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 (see Appendix A). Over the 27 year period the average negative variance is -4.4% 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 four years of the current "savings" cycle that began in FY11 yields a dollar balance of \$643 million based on projected revenue in FY13-14. Applied to the average forecast from FY16 to FY19 the target balance would be \$751 million. Table 2 on page 8 gives an historical summary of the fund balance.

Another factor to keep in mind is the need for supplemental funds during a budget down period. One recent illustration is the 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.

## ***Excess of Certified Forecasts***

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Shown on line 3 of the Financial Status, revenues in excess of "certified" forecasts are required by statute to be transferred from the General Fund to the Cash Reserve Fund. These would take place in July of the fiscal year following completion of that year. The \$96,721,233 transfer in FY15 reflects the amount the FY2013-14 actual receipts were above certified.

The \$61,500,000 million in FY2014-15 reflects the amount that the current revenue forecast (\$4,418,000,000) exceeds the July certified level (\$4,220,500,000). The certified forecast is the estimate at Sine Die 2014 when the FY2014-15 budget was enacted. Note that these amounts are included in the \$769 million estimated unobligated fund balance but are not yet "cash in the bank".

## ***Transfers To / From General Fund***

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Unlike the automatic transfers that occur after the close of the fiscal year and are statutorily required, other transfers can take place as specifically enacted by the Legislature. The only current statutory transfer related to the General Fund occur in FY2014-15 and were authorized by LB130 enacted in the 2014 session. Following the concept that any use of the Cash Reserve Fund should be for one-time items to match the one-time nature of the financing source, the \$50.5 million transfer was to cover the costs of several one-time items

<u>Related Item</u>	<u>\$ Amount</u>	<u>Transfer</u>
DCS- temporary housing, county jails	4,950,229	
Natural Resources-Resources Development Fund	10,492,793	
Water Sustainability Fund-(one-time portion)	10,000,000	
Game & Parks Improvement and Maintenance Fund	15,000,000	
Job Training Cash Fund	10,000,000	
<i>Transfer to General Fund</i>	50,443,022	50,500,000

## ***Transfers To/From Other Funds***

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In the 2013 session, LB 200 provided for a \$43,015,459 transfer from the Cash Reserve Fund to the Nebraska Capital Construction Fund (NCCF) sometime between July 1, 2013 and June 30, 2017 at the discretion of the Budget Administrator for construction of a new Central Nebraska Veterans Home to replace the existing facilities. Originally this transfer was shown in FY13-14, however has been shifted to FY14-15 since the actual transfer has not yet been made.

In the 2014 session, LB 130 provided for a \$14.5 million transfer from the Cash Reserve Fund to the NCCF. This covers the cost of the first three years of the State Capitol HVAC systems replacement project (\$11.7 million) and installation of four courtyard fountains in the State Capitol (\$2.5 million).

Table 2 Cash Reserve Fund – Historical Balances

Fiscal Yr	Beginning Balance	Direct Deposit and Interest	Automatic Transfers	Legislative Transfers	Cash Flow	Ending Balance	Balance as % of Expend
FY1983-84	0	37,046,760	na	0	0	37,046,760	4.9%
FY1984-85	37,046,760	(1,472,551)	na	0	0	35,574,209	4.4%
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	2.8%
FY1987-88	23,730,085	1,654,844	na	(7,700,000)	0	17,684,929	2.0%
FY1988-89	17,684,929	139,000	na	32,600,000	0	50,423,929	5.1%
FY1989-90	50,423,929	113,114	na	(10,500,000)	0	40,037,043	3.4%
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	1.7%
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	2.2%
FY1997-98	40,962,684	0	91,621,018	0	0	132,583,702	6.9%
FY1998-99	132,583,702	0	111,616,422	(98,500,000)	0	145,700,124	6.5%
FY1999-00	145,700,124	0	20,959,305	(24,500,000)	0	142,159,429	6.1%
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	4.2%
FY2002-03	110,066,099	66,476,446	0	(87,400,000)	(30,000,000)	59,142,545	2.3%
FY2003-04	59,142,545	59,463,461	0	(61,577,669)	30,000,000	87,028,337	3.4%
FY2004-05	87,028,337	8,170,556	108,727,007	(26,758,180)	0	177,167,720	6.5%
FY2005-06	177,167,720	0	261,715,297	(165,266,227)	0	273,616,790	9.4%
FY2006-07	273,616,790	0	259,929,524	(17,458,523)	0	516,087,791	16.5%
FY2007-08	516,087,791	0	191,436,773	(161,978,767)	0	545,545,797	16.8%
FY2008-09	545,545,797	0	116,976,571	(84,330,505)	0	578,191,863	17.4%
FY2009-10	578,191,863	0	0	(110,990,237)	0	467,201,626	14.1%
FY2010-11	467,201,626	0	0	(154,000,000)	0	313,201,626	9.4%
FY2011-12	313,201,626	8,422,528	145,155,092	(33,439,198)	(4,461,676)	428,878,372	12.4%
FY2012-13	428,878,372	0	104,789,781	(154,008,427)	4,461,676	384,121,402	10.7%
FY2013-14	384,121,402	0	285,292,610	49,651,294	0	719,065,306	18.7%
FY2014-15 est	719,065,306	0	96,721,233	(108,265,459)	0	707,521,080	17.2%
FY2015-16 est	707,521,080	0	61,500,000	0	0	769,021,080	17.9%
FY2016-17 est	769,021,080	0	0	0	0	769,021,080	17.4%
FY2017-18 est	769,021,080	0	0	0	0	769,021,080	16.7%
FY2018-19 est	769,021,080	0	0	0	0	769,021,080	16.0%

# General Fund Revenues

## General Fund Revenue Forecasts

### Current Biennium (FY15, FY16 and FY17)

Revenue estimates for FY2014-15, FY2015-16 and FY2016-17 are the October 2014 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Rate and base adjusted revenue growth implied by the forecasts for the FY16/FY17 biennium average 5.0% (5.1% in FY15-16 and 4.8% in FY16-17). When including the 6.3% growth in FY14-15 forecast, this provides an average growth of 5.4% over the three years that affect the financial status for the upcoming biennium. This reflects growth just slightly above the 5.1% historical 33 year average.

### Following Biennium (FY18 and FY19)

The NEFAB does not make official forecasts for the following biennium or what's commonly referred to as the "out years". Although different methodologies could be utilized, the revenue estimates used for the following biennium (FY17-18 and FY18-19) are derived by the Legislative Fiscal Office (LFO) using a "capped" historical average methodology. This "smoothing" technique derives "out year" revenue estimates by

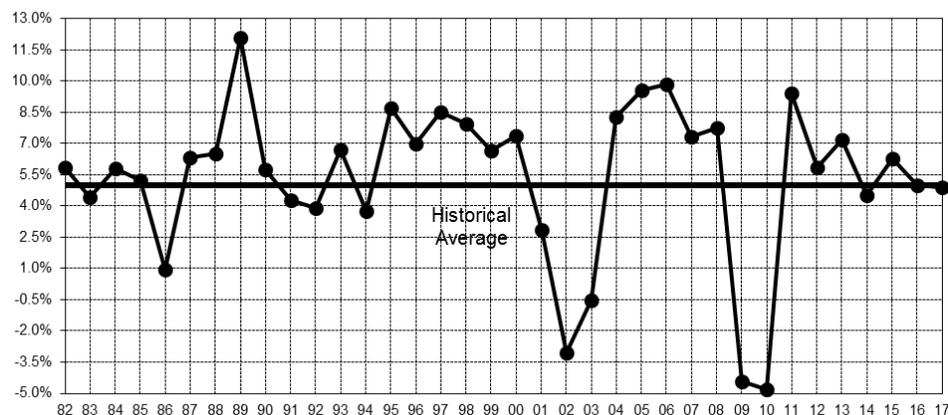
calculating the level of revenues that would yield a five year average growth (FY14 to FY19) roughly equal to the 33 year historical average. Inherent in this methodology is the concept that within any five-year period, below average revenue growth in some years will be offset by above average growth in others and is visually seen in the line graph of historical adjusted revenue growth.

Table 3 General Fund Revenue Forecasts

	NEFAB FY2014-15	NEFAB FY2015-16	NEFAB FY2016-17	LFO Prelim FY2017-18	LFO Prelim FY2018-19
<b>Actual/Forecast</b>					
Sales and Use Tax	1,580,000,000	1,640,000,000	1,710,000,000	1,770,000,000	1,830,000,000
Individual Income Tax	2,165,000,000	2,268,000,000	2,395,000,000	2,520,000,000	2,640,000,000
Corporate Income Tax	325,000,000	320,000,000	325,000,000	315,000,000	310,000,000
Miscellaneous receipts	212,000,000	190,000,000	192,000,000	192,000,000	175,000,000
<b>Totals</b>	<b>4,282,000,000</b>	<b>4,418,000,000</b>	<b>4,622,000,000</b>	<b>4,797,000,000</b>	<b>4,955,000,000</b>
<b>Adjusted Growth</b>					
Sales and Use Tax	6.8%	5.0%	3.1%	3.3%	3.2%
Individual Income Tax	6.4%	5.8%	6.4%	6.0%	5.3%
Corporate Income Tax	7.3%	-0.2%	2.5%	-2.5%	-1.3%
Miscellaneous receipts	-1.5%	5.3%	8.1%	-6.5%	-2.3%
<b>Total</b>	<b>6.3%</b>	<b>5.0%</b>	<b>4.8%</b>	<b>3.8%</b>	<b>3.8%</b>
<b>Five Yr Average</b>	<b>6.6%</b>	<b>--</b>	<b>5.7%</b>	<b>--</b>	<b>4.8%</b>

The "capped" provision of this methodology means that the derived growth needed in the out-years to achieve the historical average cannot be higher than the "above average" growth years nor lower than the "below average" growth years. Over the past 33 years, there were 11 years in

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



which revenue growth was "below average" (1.1% average) and 22 years in which revenue growth was above average (7.3% average).

*There has been one change in the implementation of this methodology.* In the past, the target growth was the 33 year historical average which is 5.0%. Part of this revenue growth can be attributed to "bracket creep" in the income tax where the income tax brackets remained constant while inflation moved up incomes. Some of this bracket creep was subsequently offset by periodic legislatively enacted increases in the income tax brackets. However, because this was accomplished through legislation, the impact was adjusted out as part the base and rate adjustments and the 5% historical growth still includes the impacts of "bracket creep". LB 987 enacted in the 2014 session provides that the income brackets will be indexed for inflation starting with taxable years beginning on or after January 1, 2015 effectively eliminating the growth historically achieved through bracket creep. Therefore, the historical average which is used in the LFO methodology also must be adjusted to eliminate the growth attributed to bracket creep. The estimated revenue reduction of \$11-12 million is equal to approximately .5% of income tax and .25% total General Fund revenues. Therefore the target historical average growth used in this methodology is 4.75%, the historical 5% growth less .25% attributed to bracket creep.

Because the revenue growth in the NEFAB forecasts is slightly above average, the revenue growth needed to yield a 4.75% five year average is 3.8% in both FY17-18 and FY18-19.

Alternative methods are also available for purposes of deriving revenue estimates for the following biennium. In addition to the historical average methodology used in the financial status, both the Nebraska Dept of Revenue (NDR) and Legislative Fiscal Office (LFO) have calculated revenue estimates for these two "out years" using the same models and input from HIS

Table 4 Comparison of "Out Year" Forecasts

<b>Based on Oct 2014 Revenue Forecasts</b>	Current Status	Average IHS Economics	Average All Forecasts	High Est NDR-Moody'sr	Low Est LFO IHS
<b><u>Dollar Forecast (thousands)</u></b>					
FY2017-18 Prelim	4,797,000	4,848,246	4,933,808	5,115,346	4,743,375
FY2018-19 Prelim	4,955,000	5,061,293	5,148,091	5,337,189	4,956,224
<b><u>Calculated Growth (adjusted)</u></b>					
FY2017-18 Prelim	3.8%	4.9%	6.6%	10.2%	2.8%
FY2018-19 Prelim	3.8%	4.8%	4.7%	4.7%	4.9%
Two Year Average	3.8%	4.8%	5.7%	7.5%	3.8%
Five Year Average	<b>4.7%</b>	<b>5.1%</b>	<b>5.5%</b>	<b>6.2%</b>	<b>4.7%</b>
<b><u>\$ Difference from Status</u></b>					
FY2017-18 Prelim	0	51,246	136,808	318,346	(53,625)
FY2018-19 Prelim	0	106,293	193,091	382,189	1,224
Cumulative Total	0	157,538	329,899	700,535	(52,401)

Economics (previously Global Insight) and Moody's, the national forecasting services used as input into the tax forecast models. While these forecasts work well for the 1 to 3 year forecasts, when extended further they have a tendency to flatten out and follow the 3 year trend into the 4<sup>th</sup> and 5<sup>th</sup> year. In other words, they have difficulty picking up changes in the trend. The historical average methodology has been used since 1991 and the "smoothing" technique used for the most part relies on the trend changes.

As shown in Table 4, the preliminary estimates for the two "out years" arrived at using the historical average concept (as used in the Financial Status) tends to the low end however there are very large difference in the various numbers.

## General Fund Transfers-Out

This area tabulates funds that are transferred from the General Fund to another fund within the state treasury. These items have the same effect as an appropriation but are not expended as such and thus are shown under the revenue category (see line 10 on the Financial Status on page 4).

Table 5 - General Fund Transfers Out

Excludes CRF Transfers	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Property Tax Credit Fund	(138,000,000)	(138,000,000)	(138,000,000)	(138,000,000)	(138,000,000)
Water Resources Cash Fund	(3,300,000)	(3,300,000)	(3,300,000)	(3,300,000)	(3,300,000)
Cultural Preservation Endowment Fund	(500,000)	(750,000)	(750,000)	0	0
Water Sustainability Fund	(21,000,000)	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)
Game & Parks Improve & Maintenance Fund.	(15,000,000)	0	0	0	0
Job Training Cash Fund	(10,000,000)	0	0	0	0
Legal Ed Public Service/Rural Practice Loan	(500,000)	0	0	0	0
High Growth Business Development Cash Fund	(50,000)	0	0	0	0
<i>Total-General Fund Transfers-Out</i>	(188,350,000)	(153,050,000)	(153,050,000)	(152,300,000)	(152,300,000)

### Property Tax Credit Cash Fund

Under this program transfers are made to the Property Tax Credit Cash Fund at the discretion of the Legislature. Based on the amount of funds available, monies are then allocated to counties by the ratio of the real property valuation in the county to the real property valuation in the state. Counties then allocate funds as credit to each tax payer again based on their proportionate value. Enacted in 2007, the amount available for credits was \$105 million in FY07-08, and \$115 million in FY08-09 through FY13-14. During the 2014 session, the FY14-15 amount was increased to \$140 million.

Note that the General Fund transfer amount is \$2 million less than the credit amount. The \$140 million credit level is financed by a combination of General Fund transfers (\$138 million in FY2014-15) and interest that will be earned on the fund balance from the time of transfer to the time of reimbursement payments to the counties, and credits calculated but unpaid relating to properties receiving homestead exemptions.

### Water Resources Cash Fund

These transfers were originally enacted by LB 701 (2007) for the purpose of (1) aiding compliance efforts regarding the reduction of consumptive uses of water dealing with those natural resources districts which are deemed over or fully appropriated or are bound by an interstate compact or decree; and (2) for a statewide assessment of short- and long-term water management activities and funding needs that are statutorily required. The bill included transfers of \$2.7 million in both FY07-08 and FY08-09 and intent language for a \$2,700,000 General Fund transfer to occur annually from FY2009-10 through FY2018-19. LB229 enacted during the 2011 Session increased this transfer amount from \$2.7 million to \$3.3 million per year with no change in the FY2018-19 sunset.

### Nebraska Cultural Preservation Endowment Fund

The Cultural Preservation Endowment Fund was originally created in 1998 with a transfer of \$5 million from the General Fund. LB 1165 (2008) provided for an additional \$5 million for the endowment fund through a \$1 million transfer from the Cash Reserve Fund and intent language that \$2 million shall be transferred from the General Fund to the Nebraska Cultural Preservation Endowment Fund in both FY2009-10 and FY2010-11. The enacted budget spread that \$4 million over a four year period, \$500,000 in FY10 and FY11 and \$1.5 million in FY12 and FY13. LB1063 (2010) changed the

statutory transfers from two \$1.5 million transfers to the Fund in both FY11-12 and FY12-13 to two transfers of \$500,000 and then extending the \$500,000 transfers for three more years, FY13-14, FY14-15, and FY15-16. LB378 (2011) deleted the FY12 and FY13 transfers, and then extended the \$500,000 annual transfers to FY17-18 and FY18-19. The current transfers are based on the provisions of LB193 (2013) which called for a \$500,000 increase in the FY13-14 transfer, a \$250,000 increase in the transfers for both FY16 and FY17 (from \$500,000 to \$750,000) and then eliminated the \$500,000 transfers for FY18 and FY19. There is no change in the overall level of transfers.

## Water Sustainability Fund

This fund was created through LB906 passed in the 2014 session, included creation of the Water Sustainability Fund in the Department of Natural Resources. Monies for the fund come from General Fund transfers; \$21,000,000 in FY2014-15. Of this transfer, \$10,000,000 is considered one-time as it was financed by a like transfer from the Cash Reserve Fund to the General Fund. Intent language was include that \$11,000,000 General Funds be transferred to the Water Sustainability Fund in each fiscal year beginning in FY2015-16.

The fund would be used in accordance with guidelines established in LB 1098 which include programs, projects, or activities in the following categories: (a) Research, data, and modeling; (b) rehabilitation or restoration of water supply infrastructure, new water supply infrastructure, or water supply infrastructure maintenance or flood prevention for protection of critical infrastructure; (c) conjunctive management, storage, and integrated management of ground water and surface water; and (d) compliance with interstate compacts or agreements or other formal state contracts or agreements or federal law.

## General Fund Transfers In

Cash funds are funds which contain earmarked revenue sources and monies in those funds can only be used for the purposes authorized by statute. In many instances (since the 2009 special session) an authorized use of monies in a cash fund is transfers to the General Fund at the discretion of the Legislature. For accounting purposes, these are shown as “Transfers in” and are included as revenues. The transfers shown below for FY2014-15 were enacted in the 2013 and 2014 sessions and already incorporated into the “Net Receipts” figures of the NEFAB forecasts

At the present time, current law does not provide for any transfers in FY2015-16 and FY2016-17 and as such the revenue forecasts do not include any transfers.

Table 6 General Fund Transfers In

	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Securities Act Cash Fund	21,000,000	0	0	0	0
Tobacco Products Admin Cash Fund	10,000,000	0	0	0	0
Dept of Insurance Cash Fund	6,000,000	0	0	0	0
Dept of Motor Vehicles Ignition Interlock Fund	200,000	0	0	0	0
Medicaid False Claims Cash Fund	6,800,000	0	0	0	0
<i>Total General Fund Transfers-In</i>	44,000,000	0	0	0	0

# General Fund Appropriations

Table 7 reflects General Fund totals for the projected budget based on the increases noted in Table 8. These increases are a "best guess" estimate of budget changes for the upcoming biennial budget and the following biennium. A narrative description of the assumptions used in arriving at these numbers follows Table 8. **Note that in most cases, rationales for the FY15-16 and FY16-17 requests are not available as these requests are currently under analysis.**

These estimates reflect a basic continuation budget, including only those increases related either to entitlement programs, legislative intent, or costs to implement previously enacted legislative actions and reflect existing statute and policies. This then provides a benchmark from which policy makers can examine the changes to statute and policy choices that are necessary to then actually balance the budget..

In many cases, the projected increases for the upcoming biennial budget (FY15-16 and FY16-17) reflect agency requests for the items shown while estimated increases for the following biennium (FY17-18 and FY18-19) are based on historical trends.

Table 7 Projected General Fund Budget

	Current Year FY2014-15	Upcoming Biennial Budget FY2015-16    FY2016-17		Est for Following Biennium FY2017-18    FY2018-19	
<b>Projected Budget</b>					
Agency Operations	1,429,479,091	1,491,487,377	1,545,199,513	1,596,714,767	1,650,758,442
State Aid to Ind/Other	1,304,901,886	1,399,411,593	1,452,707,529	1,525,545,347	1,602,239,678
State Aid to Local Govt	1,345,007,109	1,372,630,566	1,397,332,099	1,450,190,526	1,510,514,257
Construction	26,437,444	29,622,000	21,739,000	31,268,333	30,466,526
Total (w/o deficits)	4,105,825,530	4,293,151,536	4,416,978,141	4,603,718,972	4,793,978,903
<b>Dollar Change</b>					
Operations	114,247,095	62,008,286	53,712,136	51,515,254	54,043,675
State Aid to Ind/Other	92,010,063	94,509,707	53,295,936	72,837,818	76,694,332
State Aid to Local Govt	60,792,045	27,623,457	24,701,533	52,858,427	60,323,731
Construction	607,420	3,184,556	(7,883,000)	9,529,333	(801,807)
Total (w/o deficits)	267,656,623	187,326,006	123,826,605	186,740,831	190,259,930
<b>Percent Change</b>					
Agency Operations	8.7%	4.3%	3.6%	3.3%	3.4%
State Aid to Ind/Other	7.6%	7.2%	3.8%	5.0%	5.0%
State Aid to Local Govt	4.7%	2.1%	1.8%	3.8%	4.2%
Construction	2.4%	12.0%	-26.6%	43.8%	-2.6%
Total (w/o deficits)	7.0%	4.6%	2.9%	4.2%	4.1%

Overall the projected budget results in a budget growth of 4.6% in FY2015-16 and 2.9% in FY2016-17, a 3.7% two year average. To some extent, this relatively low growth reflects a 2.1% average growth in TEEOSA school aid, the single largest item in the General Fund budget.. Medicaid is the second largest item and has a two year average growth of 7.6% largely driven by a reduced federal match rate in FY15-16.

Table 8 - Projected Continuation Budget Increase - Dollar Change over Prior Year

Change over Prior Year	Projected Growth		Upcoming Biennial Budget		Est for Following Biennium	
	FY15-16	FY16-17	FY2015-16	FY2016-17	FY2017-18	FY2018-19
<b><u>Aid to Local Governments</u></b>						
Aid to K-12 Schools (TEEOSA GF only)	2.8%	1.4%	25,719,268	12,714,919	40,922,960	48,042,511
Special Education	2.5%	2.5%	5,344,199	5,477,804	5,614,749	5,755,118
Community based Juvenile Services aid	--	--	2,000,000	3,000,000	0	0
Community Colleges	3.5%	3.5%	3,287,488	3,402,550	3,521,639	3,644,897
Homestead Exemption	7.0%	2.9%	5,179,000	2,300,000	2,430,000	2,502,900
Aid to ESU's	2.5%	2.5%	351,294	360,076	369,078	378,305
Resources Development Fund	--	--	(10,492,793)	(2,553,815)	0	0
Early Childhood program	--	--	(3,415,000)	0	0	0
Other (Aid-Local)	--	--	(350,000)	0	0	0
<b><u>Aid to Individuals / Other</u></b>						
Medicaid	10.1%	5.1%	78,302,984	43,572,362	49,477,958	52,199,246
Public Assistance	4.9%	3.8%	5,395,131	4,440,975	7,209,360	7,641,921
Child Welfare Aid	2.4%	1.9%	3,333,254	2,692,132	7,190,219	7,549,730
Developmental Disability aid	6.6%	3.9%	9,057,940	5,628,959	6,069,084	6,311,847
Behavioral Health aid	14.6%	1.1%	9,869,579	853,329	1,954,178	2,003,033
Childrens Health Insurance (CHIP)	-41.5%	-25.3%	(11,438,450)	(4,084,876)	937,019	988,555
Other (Aid-Ind)	--	--	(10,731)	193,055	0	0
<b><u>State Agency Operations</u></b>						
Employee Salaries (agencies)	2.5%	2.5%	10,685,276	10,941,701	26,219,940	26,875,438
Employee Health Insurance (agencies)	10.0%	10.0%	7,189,700	7,908,670	16,738,054	18,411,860
University/Colleges increased funding	est amt	est amt	19,953,636	20,044,339	*	*
Operations increase	est amt	est amt	780,991	700,315	5,760,091	5,875,292
Juveniles, court jurisdiction (Courts)	est amt	est amt	2,970,373	9,101,229	0	0
Inmate per diem costs (Corrections)	est amt	est amt	16,618,629	3,560,640	2,093,993	2,156,813
DHHS Fund shifts, other increases	est amt	est amt	6,770,994	162,320	0	0
Juvenile Services reform (Courts)	est amt	est amt	0	0	703,176	724,271
Retirement (Schools, Patrol, Judges)	est amt	est amt	801,334	370,933	0	0
Staffing, overtime, etc... (Corrections)	est amt	est amt	1,392,647	0	0	0
Temp housing, county jails (Corrections)	est amt	est amt	(4,226,625)	0	0	0
Pediatric cancer research, one-time	est amt	est amt	(1,800,000)	0	0	0
Other (Oper)	est amt	est amt	871,331	921,989	0	0
<b><u>Capital Construction</u></b>						
	Reaff	Reaff	3,184,556	(7,883,000)	9,529,333	(801,807)
<b><u>All Other (net)</u></b>						
			0	0	0	0
<b><u>Total General Fund-Annual Increase</u></b>						
			187,326,006	123,826,605	186,740,831	190,259,930
<b>Biennial Basis</b>						
			187,326,006	311,152,611	186,740,831	377,000,762

\* Included in the salary and health insurance numbers

# Aid to Local Governments

## State Aid to Schools (TEEOSA)

The agency request was based on the 2014 Sine Die TEEOSA estimates for FY17 and FY18 which called for increased TEEOSA aid of \$61.2 million in FY15-16 and \$105.2 million in FY16-17. These numbers have been revised significantly in the Fall 2014 statutory required meeting of the Dept of Education, Legislative Fiscal Office, and DAS Budget Office. At that meeting, spending and valuation assumptions yielded a total TEEOSA number of \$961 million for FY2015-16 and \$976 million for FY2016-17. A significant part of the revised estimates came from higher estimated valuation (2014 actual vs estimate and first estimate for 2015) and lower spending estimate for school fiscal year 2015 (original estimate of 4% versus budget to budget growth of 3.2%) This projected budget includes those Fall 2014 estimates.

<b>TEEOSA Summary</b>	All Funds FY2014-15	All Funds FY2015-16	All Funds FY2016-17	All Funds FY2017-18	All Funds FY2018-19
School Disbursements	2.69%	3.72%	3.20%	4.0%	4.0%
Property Valuations (assessed)	8.5%	11.84%	9.0%	4.0%	4.0%
Property Valuations (used in formula)	2.8%	6.9%	4.8%	4.0%	4.0%
Factor to adjust for "unused" LER yield	84.87%	80.61%	77.45%	77.45%	77.45%
Cost Growth Factor	4.00%	5.00%	5.00%	5.00%	5.00%
Local Effort Rate	\$1.0000	\$1.000	\$1.000	\$1.000	\$1.000
State General Funds	913,571,842	939,291,110	952,006,029	992,928,989	1,040,971,500
Insurance Premium Tax (w/o deficit)	19,400,000	22,385,000	24,444,625	25,055,741	25,682,134
<b>Total TEEOSA Aid</b>	<b>932,971,842</b>	<b>961,676,110</b>	<b>976,450,654</b>	<b>1,017,984,730</b>	<b>1,066,653,634</b>
<b>Change Over Prior Year</b>					
Total Aid \$ Change	26,390,511	28,704,269	14,774,544	41,534,076	48,668,904
Total Aid % Change	2.9%	3.1%	1.5%	4.3%	4.8%
Gen Fund \$ Change	28,683,525	25,719,269	12,714,919	40,922,960	48,042,511
Gen Fund % Change	3.2%	2.8%	1.4%	4.3%	4.8%

<b>Chronology of TEEOSA Estimates</b>	All Funds FY2014-15	All Funds FY2015-16	All Funds FY2016-17	All Funds FY2017-18	All Funds FY2018-19
Sine Die 2014	932,971,842	994,174,817	1,038,735,000	na	na
Change in NEEDS stabilization when change school universe	0	3,361,511	600,051	na	na
Change in NEEDS gained or lost in basic funding calculation	0	(1,307,038)	11,408,833	na	na
Change in Student Growth Adjustment	0	(1,809,873)	(1,882,268)	na	na
Change in New School Adjustment	0	(2,026,909)	(2,107,985)	na	na
Lower Other receipts (apportionment)	0	2,855,257	2,926,638	na	na
Valuation, 2014 from 8.36% to 11.84% actual	0	(31,933,538)	(32,864,408)	na	na
Valuation; 2015 (4.0% to 9.02% DPAT)	0	0	(19,301,780)	na	na
Spending growth, SFY14 no change from 3.72%	0	0	0	na	na
Spending growth, SFY15 4.0% to 3.2% (first budget to budget)	0	0	(18,871,276)	na	na
All Other	0	(1,638,117)	(2,192,151)	na	na
<b>Total Change</b>	<b>0</b>	<b>(32,498,707)</b>	<b>(62,284,346)</b>	<b>na</b>	<b>na</b>
October 2014 Joint Meeting	932,971,842	961,676,109	976,450,654	1,017,984,730	1,066,653,634

## Special Education

The agency request included a 10% increase for both FY15-16 and FY16-17 which is the maximum authorized by statute. Statute provides for a 10% cap on increases in Special Education reimbursement starting in FY14-15 as amended by LB974-2014. The previous cap was 5%. The projection for FY16 and FY17 includes a 2.5% per year increase which is the basic allowable growth rate for those two school years for school districts.

## **Early Childhood Programs**

Budget adjustments in the 2014 session included an additional \$3,415,000 of General Funds in FY 2014-15 as aid for the early childhood education grant program. The aid was provided to the State Department of Education on a one-time basis to provide grants for early childhood programs over a three year period, from FY2014-15 through FY2016-17. The projected budget removes this one-time funding from the base budget and provides no other 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 included at the same rate as the basic allowable growth rate under the K-12 school spending limitation (2.5% per year). The agency request included a 6% per year increase.

## **Homestead Exemption**

This program is projected to increase by 7.0% in FY16 and 2.9% in FY17. This includes a roughly 4% per year annual increase for cost and eligibility increases plus annualizing the impact of two bills enacted in the 2014 session which made changes to income level eligibilities (LB986 \$847,000) and disabled veterans provisions (LB179 \$406,000).

## **Resources Development Fund**

The projected budget includes funding for the Resources Development Fund at the agency request level. This includes a base reduction of \$10,492,793 in both years to remove one-time FY14-15 funding added in the 2014 session and an additional reduction of \$2,553,815 in FY16-17. LB906 capped future expenditures to the previously approved allocations for each project, prohibited reallocation among approved projects, and prohibited any new applications for funds in order to phase out the Resources Development with the creation of the Water Sustainability Fund. With the additional funding provided in FY14-15 and an appropriation of \$3,140,325 for F15-16, a reduced appropriation in FY16-17 will leave enough funds to satisfy remaining project commitments.

## **Community Based Juvenile Services aid**

LB561 enacted in the 2013 session, expanded the Nebraska Juvenile Service Delivery Project statewide in a three step, phase-in process beginning July 1, 2013 with full implementation by July 1, 2014. Under the bill the previously existing County Juvenile Services Aid Program was renamed the Community-based Juvenile Services Aid Program, and funding was increased by \$1,522,425 in FY13-14 and \$3,522,425 in FY14-15 to bring the total amount of aid funding for this program to \$3,000,000 in FY14 and \$5,000,000 in FY15.

During floor debate on the bill, it was further stated that it was intended that funding for this program increase to \$7.0 million in FY16 and then \$10 million in FY17. Although the agency request included no additional funding for this program for the upcoming biennium, this projected budget includes an increase of \$2 million in FY16 and \$5 million in FY17 per legislative intent.

## **Aid to Community Colleges**

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

## ***Aid to Individuals/Other***

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### **Medicaid**

For the upcoming biennium, the projected budget is based on the agency request plus a 2% increase in provider rates not included in the request.

Overall increase in General Funds is 10.1% in FY15-16 which includes \$21.4 million for eligibility and utilization increases, \$27.5 million for a reduction in the federal match rate (FMAP) from 53.27% to 51.16%, and \$8.9 million related to federal Dept. of Labor rules regarding domestic service providers and minimum wage. Though the agency request did not include any increase in provider rates, this projected budget includes a 2% per year increase.

### **Children's Health Insurance (SCHIP)**

For the upcoming biennium, the projected budget is based on the agency request for eligibility and utilization increases and the decline in the basic federal match rate (FMAP). This projected budget includes a 2% per year increase in provider rates which was not included in the agency request.

The agency request included two other adjustments related to the FMAP; expiration of the current enhanced CHIP FMAP and a new expanded federal match rate (23%) from the Affordable Care Act (ACA) for FFY2015 to FFY2019. This projected budget assumes an extension of the existing enhanced CHIP FMAP and does not include additional General Funds for that issue. This projected budget does include reduced General Funds for the additional ACA related FMAP but at the Sine Die 2014 estimated level which is lower than the General Fund savings included in the request.

### **Public Assistance**

For the upcoming biennium, the projected budget is mostly based on the agency request and results in an increase of 4.9% in FY15-16 and 3.8% in FY16-17. The request includes no increase for eligibility, utilization, or rate increases except for a \$3.5 million increase in FY15-16 for child care rates to reach the sixtieth percentile of current market rates.

Though the agency request did not include any general increase in provider rates, this projected budget includes a 2% increase for other providers and also includes an increase in child care rates for FY16-17.

### **Child Welfare**

Like Public Assistance for the upcoming biennium, the projected budget is based on the agency request (excluding one issue) and results in an increase of 2.4% in FY15-16 and 1.9% in FY16-17. The request includes no increase for eligibility, utilization, or rate increases. Though the agency request did not include any general increase in provider rates, this projected budget includes a 2% provider rate increase

The agency request included \$14.6 million General Funds in FY15-16 related to repayment of disallowed Title IV-E Foster Care claims for federal fiscal year (FFY) FFY2010 – FFY2012. This was also included in the agency deficit request and is included in this projected budget as a FY14-15 deficit.

## **Developmental Disability Aid**

Funding for developmental disability aid increases by 6.6% in FY15-16 and 3.9% in FY16-17. This includes \$1.4 million in FY16 and an additional \$1.2 million in FY17 for clients transitioning from K-12 programs and \$4.2 million in FY16 for a reduced FMAP. Although the DHHS request did not include any increased funding for rate equity, this projected budget includes a 2.5% per year rate equity increase the same as utilized for state employee salary increases. This projected budget also does not include any additional funds related to reducing the waiting list.

## **Behavioral Health Aid**

This area includes substance abuse and mental health aid. The projected status includes \$3.2 million in FY16 (\$2.7 million in FY17) for a potential maintenance of effort penalty per the agency request. Items not included in the request but which are in this projected budget include a 2% per year increase in provider rates and a \$5 million base increase to restore the net \$5 million cut previously included based on estimated ACA related savings. Additional FY16 and FY17 ACA related savings that had previously been incorporated into "out year" budget estimates have been deleted.

## ***State Agency Operations***

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### **Employee Salary Increases**

At the present time there has been no collective bargaining agreement. Therefore this projected budget simply includes the same 2.5% annual increase that had been utilized last session. For purposes here this was applied to bargaining and non-bargaining employees.

### **Employee Health Insurance**

At the present time insurance rates and cost increases for FY2015-16 and FY2016-17 are unknown. For state agencies this projected status includes a 10% per year increase as rates have been relatively flat for several years.

### **Operations Inflation**

For FY16/FY17 biennium the only operating increases included are inflationary costs included at the DHHS 24 hour/7 days per week institutions and gasoline prices for the State Patrol. For the FY18/FY19 biennium, the projected status includes an allocation for operating cost increases equal to 2% of non-personnel operating costs including all state agencies, the University and State Colleges.

### **Supreme Court**

LB464 passed in the 2014 session changed court jurisdiction over juveniles and indictment procedures and changes provisions regarding the exclusive original jurisdiction of the Juvenile Court for juveniles age 16 and 17. The bill phases-in this jurisdiction change (age 16 on January 1, 2015 and age 17 on January 1, 2017) and associated costs for additional probation officers and other probation staff, treatment for juveniles, pre-adjudication out-of-home placements, and pre-adjudicated evaluations. In addition to the base funding of \$5.4 million in FY14-15, the projected budget includes an additional \$2,706,111 in FY15-16 and \$11,471,034 in FY16-17 to fully fund the bill.

## Dept of Health and Human Services

In terms of DHHS operations, the largest dollar increases included in the projected budget are shifts in funding from cash and federal sources to General Funds as included in the agency request. This includes \$3,200,000 due to depletion of the IV-E training fund and \$4,570,994 in mental health operations programs. For several prior bienniums, accumulated excess Federal and Cash funds were used to support operations at the Lincoln Regional Center and Hastings Regional Center. These excess funds were due in part to multiple year Federal Medicaid cost settlements. As a result of this accumulation, the fund mix for program 365 was redesigned to utilize these buildups and the excess funds have now been depleted.

## Dept. of Correctional Services

This projected budget includes several large increases for the Dept. of Correctional Services especially for inmate medical costs largely driven by new Hepatitis C treatments. An item breakdown of the agency request and funding included in this projected budget is shown below.

*This projected budget includes no new funds related to prison population and reform at this time and in fact includes a base reduction to remove the \$4.2 million funding for housing inmates in county jails added last session. At that time this was considered one-time as longer term solutions were to be addressed as part of the prison population reform under LB 907. The Nebraska Justice Reinvestment Working Group was created in LB 907 to work with the Council of State Governments Justice Center to conduct a study on and provide recommendation to help address the prison overcrowding and reform. At this time the study is on-going.*

<u>Description</u>	<u>Agency Request</u>		<u>TRR Nov 2014 Meeting</u>	
	<u>FY2015-16</u>	<u>FY2016-17</u>	<u>FY2015-16</u>	<u>FY2016-17</u>
Inmate Medical Per Diem - Hepatitis C	11,660,176	13,059,397	11,660,176	13,059,397
Inmate Medical Per Diem - Other	3,637,340	5,307,458	3,637,340	5,307,458
Inmate Per Diem	1,321,113	1,812,414	1,321,113	1,812,414
Shortage - Overtime	1,392,647	1,392,647	1,392,647	1,392,647
County Jail Agreement - reduce base amount as one-time item			(4,226,625)	(4,226,625)
County Jail Agreement - increase over base amount	2,315,226	2,267,226	0	0
Behavioral Health Staffing	1,215,177	1,170,674	0	0
Capital Outlay Increase	400,742	400,742	0	0
Facility Essential Services	194,042	192,692	0	0
Health Services	606,150	376,150	0	0
Increase Cash Fund Appropriation	(384,500)	(384,500)	0	0
Reentry and Community Supervision	679,296	616,896	0	0
Safety, Security and Infrastructure Projects	1,461,000	1,156,000	0	0
Security Staffing	6,264,228	6,127,379	0	0
Update Computing Systems	100,000	0	0	0
Utilities & Facility Maintenance	438,088	448,750	0	0
Violence Reduction Program	197,748	187,827	0	0
Vocational & Life Skills	47,975	47,975	0	0
Vocational & Life Skills	162,559	162,559	0	0
Total	31,709,007	34,342,286	13,784,651	17,345,291

## University and State College General Increases

In the past several biennium, a general overall budget increase has been provided to the university of Nebraska and State Colleges. In the projected budget, these general increases are included at a level to cover estimates of salary and health insurance increased costs. For salary, a 2.5% increase was included similar to state agencies. For health insurance, in the absence of actual numbers, these calculations use the agency request for the State Colleges (10.0% per year) and University of Nebraska (6% per year). The only other item included is a \$1.8 million base reduction in the University of Nebraska to take out one-time FY16 funding provided for pediatric cancer research.

**Retirement (defined benefit plans)**

At this time the increases included here are based on the agency request with annual increases of \$801,334 in FY16 and an additional \$370,933 in FY17 based on existing law. These are only an estimate with the final funding needs communicated in November 2014 following receipt of the annual actuarial valuation.

***Capital Construction***

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General Fund dollars included in the projected budget for capital construction reflect reaffirmations only based on the FY14/FY15 biennial budget. These are dollar amounts needed to complete funding of previously approved projects. Nothing is included for new projects in FY16 or FY17.

## **Appendix A**

### **Historical Variance, Projected vs Actual**

### **General Fund Receipts**

Millions of \$	Projected Sine Die	Actual Receipts	\$ Variance	% Variance	
				Negative	Positive
FY 1986-87	878.0	886.4	8.4		1.0%
FY 1987-88	924.3	1,016.3	92.0		10.0%
FY 1988-89	988.4	1,133.5	145.1		14.7%
FY 1989-90	1,110.9	1,152.7	41.8		3.8%
FY 1990-91	1,334.6	1,367.1	32.5		2.4%
FY 1991-92	1,493.2	1,490.4	(2.8)	-0.2%	
FY 1992-93	1,537.3	1,524.7	(12.6)	-0.8%	
FY 1993-94	1,662.5	1,653.7	(8.8)	-0.5%	
FY 1994-95	1,729.9	1,706.0	(23.9)	-1.4%	
FY 1995-96	1,834.3	1,836.7	2.4		0.1%
FY 1996-97	1,918.0	2,009.6	91.6		4.8%
FY 1997-98	1,993.8	2,105.4	111.6		5.6%
FY 1998-99	2,102.9	2,123.9	21.0		1.0%
FY 1999-00	2,326.3	2,403.9	77.6		3.3%
FY 2000-01	2,484.3	2,456.8	(27.5)	-1.1%	
FY 2001-02	2,646.0	2,365.5	(280.5)	-10.6%	
FY 2002-03	2,725.7	2,456.4	(269.3)	-9.9%	
FY 2003-04	2,732.0	2,718.7	(13.3)	-0.5%	
FY 2004-05	2,775.5	3,037.2	261.7		9.4%
FY 2005-06	3,092.3	3,352.2	259.9		8.4%
FY 2006-07	3,217.0	3,408.3	191.4		5.9%
FY 2007-08	3,389.2	3,506.1	116.9		3.5%
FY2008-09	3,531.7	3,357.5	(174.3)	-4.9%	
FY2009-10	3,446.7	3,204.7	(242.0)	-7.0%	
FY2010-11	3,422.2	3,499.7	77.4		2.3%
FY2011-12	3,591.1	3,695.9	104.8		2.9%
FY2012-13	3,767.1	4,052.4	285.3		7.6%
FY2013-14	4,020.7	4,117.40	96.7		2.4%
FY2014-15 est	4,175.0	?	?	?	?
FY2015-16 est	4,367.0	?	?	?	?
FY2016-17 est	4,628.0	?	?	?	?
FY2017-18 est	na	?	?	?	?
Avg Variance				-4.4%	4.7%

## Appendix B

### FY2014-15 Deficit Requests (General Fund)

#	Agency	Issue	Fund	Type	\$ Amount
7	Governor	Leave payouts (also \$26,511 PSL)	Gen	Oper	30,524
7	Governor	Leave payouts (also \$98,890 PSL)	Gen	Oper	113,859
13	Education	TEEOSA Aid; revised Insurance Premium tax	Gen	Aid	(1,181,754)
13	Education	School Breakfast Program	Gen	Aid	52,380
16	Revenue	Homestead exemption deficit	Gen	Aid	0
25	DHHS	Foster care reimbursement rate, NFC Contract and Tribe	Gen	Aid	7,584,150
25	DHHS	IV-E Disallowance	Gen	Oper	2,590,768
25	DHHS	IV-E Disallowance	Gen	Aid	16,470,961
25	DHHS	OJS Population & Services, non-transferred clients	Gen	Oper	301,886
25	DHHS	OJS Population & Services, non-transferred clients	Gen	Aid	1,128,000
25	DHHS	Reallocation of Balancing Incentive Program (BIP) funds	Gen	Aid	(866,931)
25	DHHS	Reallocation of Balancing Incentive Program (BIP) funds	Gen	Oper	866,931
25	DHHS	Transfer LB530A funds, DHHS to Foster Care (also \$43,098 PSL)	Gen	Oper	(94,000)
46	Corrections	County Jail Agreement staffing (also \$277,214 PSL)	Gen	Oper	415,378
46	Corrections	Funding, FY14 expenses carried forward to FY15	Gen	Oper	5,732,666
46	Corrections	Increased available cash funds	Gen	Oper	(384,500)
46	Corrections	Increased Utilities & Maintenance costs	Gen	Oper	1,758,345
46	Corrections	Inmate Medical Per Diem	Gen	Oper	11,846,247
46	Corrections	Inmate Per Diem	Gen	Oper	784,648
46	Corrections	PSL Shortage & Overtime (also \$1,887,152 PSL)	Gen	Oper	1,887,152
46	Corrections	Reentry and Community Supervision	Gen	Oper	456,000
46	Corrections	Security Staffing (also \$472,425 PSL)	Gen	Oper	703,361
65	DAS	State Claims	Gen	Oper	0
68	Latino-American	Training of New Board members (also \$350 PSL)	Gen	Oper	6,367
70	Foster Care	Transfer LB530A funds, DHHS to Foster Care (also \$43,098 PSL)	Gen	Oper	94,000
Total		Operations	Gen	Oper	27,109,632
		State Aid	Gen	Aid	23,186,806
		Construction	Gen	Const	0
		Total General Fund Deficits	Gen	Total	50,296,438

## **Appendix C**

### **Statutory Provisions - Tax Rate Review Committee**

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#### **Statutory Required Meetings**

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

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

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

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

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

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

#### **Annual Report**

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