

# **TAX RATE REVIEW COMMITTEE**

**July 17, 2017**

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

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

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

**Prepared by the Legislative Fiscal Office**

## Statutory Required Meetings

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

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

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

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

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

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

## Annual Report

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

# Summary

1. Actual receipts for FY2016-17 were \$34.2 million below the forecast used at Sine Die of the 2017 Session which was the April 2017 forecast of the Nebraska Economic Forecast Advisory Board (NEFAB). There were no revenue bills enacted in the 2017 Session affecting FY16-17.
2. Tax rate and base adjusted revenue growth for FY2016-17 actual receipts is 0.3% compared to the 1.0% growth calculated per the April forecast. Nominal (actual unadjusted) change from the prior year is -1% or \$42.2 million less than the prior year.

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

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

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

4. The Cash Reserve Fund is projected at an unobligated balance of \$369.1 million taking into consideration transfers that are authorized for the State Capitol HVAC to FY2020-21. This is same as estimated at Sine Die 2017.
5. The current status is based on the existing revenue forecast for FY2017-18 and FY2018-19. The NEFAB will not meet to evaluate this existing FY17-18 and FY18-19 revenue forecasts until October. With the lower adjusted growth in FY16-17 actual receipts (.3% vs 1.0% growth), the FY17-18 calculated growth is now 5.6% with the existing forecast compared to the Sine Die estimate of 4.9%. With no change in either FY18 or FY19 there is no change in the FY18-19 calculated adjusted growth of 5.2%
6. The projected financial status for the following biennium, FY2019-20 and FY2020-21, now shows a variance from the minimum reserve of a positive \$188.3 million compared to the Sine Die estimated \$203.1 million. This revised shortfall figure only reflects the decline in the FY2016-17 revenues and does not yet reflect any potential changes in the FY18, FY19, FY20 or FY21 revenue numbers in light of the lower FY16-17 base.

# Current General Fund Financial Status

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

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

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

# Changes in the Financial Status since Sine Die 2017

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

## Accounting Adjustments:

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

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

## Lapse of Unexpended FY2016-17 Funds

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

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

# FY2016-17 Actual General Fund Receipts

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

Table 1 FY2016-17 Actual Receipts vs Forecast

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

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

Table 2 Actual Receipts and Adjusted Growth

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

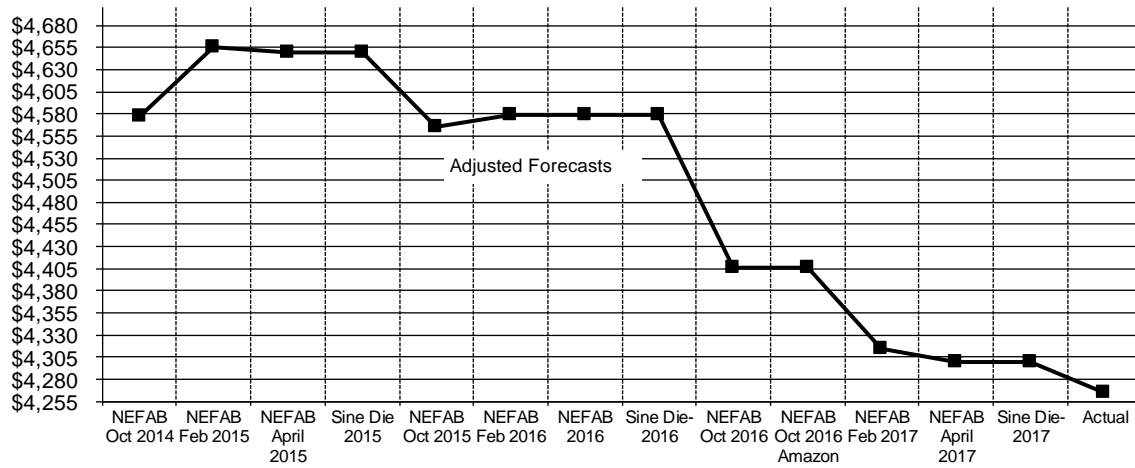
	Actual FY2011-12	Actual FY2012-13	Actual FY2013-14	Actual FY2014-15	Actual FY2015-16	Actual FY2016-17
<b><u>TOTAL BY MONTH</u></b>						
July	200,410,336	221,623,977	231,361,095	241,017,843	250,936,331	234,585,213
August	328,095,462	334,866,833	341,465,610	354,034,166	385,186,834	410,484,016
September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

Table 3 Chronology of FY2016-17 Revenue Forecasts

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

**Chronology of FY2016-17 Forecasts**

Prior forecasts adjusted for subsequent legislation and federal tax changes



**Chronology of FY2015-16 Forecasts**

Prior forecasts adjusted for subsequent legislation and federal tax changes

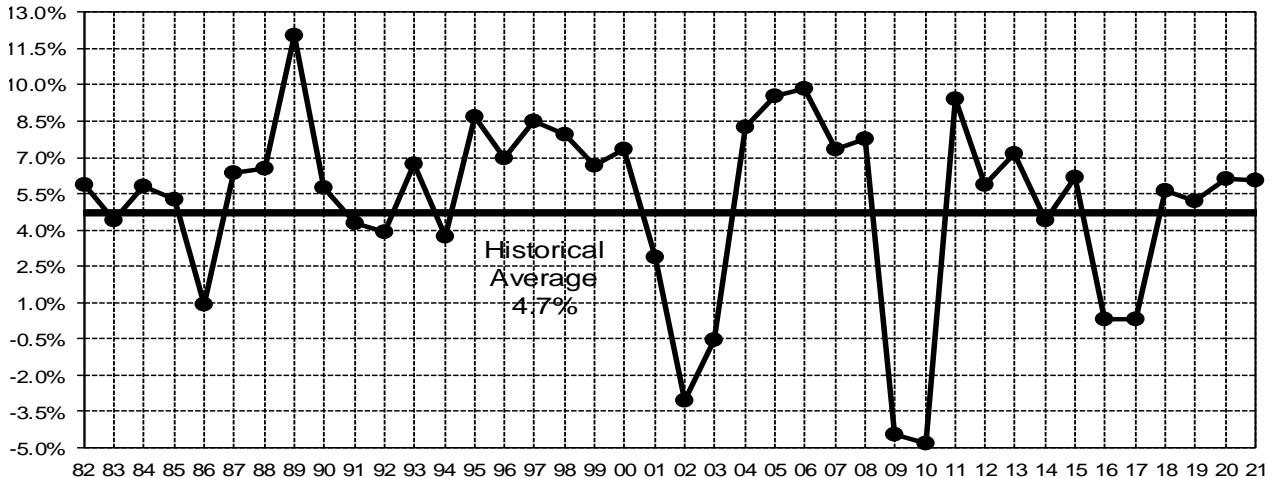




Table 4 Historical and Projected Revenues

	Sales	Individual	Corporate	Miscellaneous	Total	Adjusted Growth
FY 1996-97 Actual	755,907,807	944,117,130	137,337,967	172,241,113	2,009,604,017	8.5%
FY 1997-98 Actual	803,805,374	981,643,795	142,150,133	177,852,119	2,105,451,422	8.0%
FY 1998-99 Actual	744,650,752	1,078,522,994	135,033,658	165,661,901	2,123,869,305	6.7%
FY 1999-00 Actual	900,427,469	1,180,363,301	140,021,942	183,111,959	2,403,924,670	7.4%
FY 2000-01 Actual	905,023,176	1,233,363,553	138,040,082	180,435,044	2,456,861,855	2.9%
FY 2001-02 Actual	918,889,782	1,159,810,647	107,628,074	179,180,246	2,365,508,749	-3.0%
FY 2002-03 Actual	1,028,931,065	1,129,421,651	111,597,406	186,449,714	2,456,399,836	-0.5%
FY 2003-04 Actual	1,114,374,321	1,249,890,025	167,429,431	187,033,230	2,718,727,007	8.3%
FY 2004-05 Actual	1,231,011,089	1,400,076,680	198,380,442	207,726,086	3,037,194,297	9.5%
FY 2005-06 Actual	1,263,678,691	1,545,338,061	262,295,456	280,875,316	3,352,187,524	9.9%
FY 2006-07 Actual	1,303,826,416	1,650,895,394	213,027,010	240,582,953	3,408,331,773	7.3%
FY 2007-08 Actual	1,321,867,139	1,726,145,405	232,851,654	225,298,373	3,506,162,571	7.7%
FY 2008-09 Actual	1,326,161,017	1,600,418,236	198,483,786	232,405,148	3,357,468,187	-4.4%
FY 2009-10 Actual	1,289,796,877	1,514,830,114	154,332,137	245,720,545	3,204,679,673	-4.8%
FY 2010-11 Actual	1,372,784,033	1,735,208,600	154,944,966	236,717,493	3,499,655,092	9.4%
FY 2011-12 Actual	1,436,909,373	1,822,884,254	234,266,238	201,828,916	3,695,888,781	5.9%
FY 2012-13 Actual	1,474,942,641	2,101,912,041	275,562,990	199,940,938	4,052,358,610	7.2%
FY 2013-14 Actual	1,524,793,763	2,060,758,896	306,591,027	225,264,546	4,117,408,232	4.4%
FY 2014-15 Actual	1,535,419,516	2,205,463,903	346,477,378	217,738,529	4,305,099,326	6.2%
FY 2015-16 Actual	1,528,023,310	2,221,088,817	307,669,694	251,199,454	4,307,981,275	0.3%
FY 2016-17 Actual	1,548,388,849	2,224,840,053	264,439,713	228,103,332	4,265,771,947	0.3%
FY 2017-18 NEFAB (April+bills)	1,625,000,000	2,425,000,000	265,000,000	263,456,000	4,578,456,000	5.6%
FY 2018-19 NEFAB (April+bills)	1,710,000,000	2,550,000,000	280,000,000	175,000,000	4,715,000,000	5.2%
FY 2019-20 LFO Prelim	1,809,000,000	2,718,000,000	310,000,000	192,000,000	5,029,000,000	6.1%
FY 2020-21 LFO Prelim	1,913,000,000	2,895,000,000	340,000,000	185,000,000	5,333,000,000	6.1%
<b>AVERAGE GROWTH (adjusted)</b>						
Five Yr Financial Status (FY17 to FY21 Status)	4.5%	5.5%	2.2%	1.2%	4.7%	
Above Average Years (23)	5.6%	9.1%	11.8%	3.5%	7.3%	
Below Average Years (13)	1.5%	1.9%	-6.3%	0.5%	1.0%	
Historical Average (36 yrs)	4.1%	6.3%	4.5%	0.9%	4.7%	

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



# Cash Reserve Fund

	Beginning Balance	Direct Deposit and Interest	Automatic Transfers (1)	Legislative Transfers (2)		Cash Flow	Ending Balance	EB as % of revenues
				Gen Fund	Other Funds			
FY1983-84	0	37,046,760	na	0	0	0	37,046,760	4.7%
FY1984-85	37,046,760	(1,472,551)	na	0	0	0	35,574,209	4.5%
FY1985-86	35,574,209	227,855	na	(13,500,000)	0	0	22,302,064	2.7%
FY1986-87	22,302,064	1,428,021	na	0	0	0	23,730,085	2.7%
FY1987-88	23,730,085	1,654,844	na	0	(7,700,000)	0	17,684,929	1.7%
FY1988-89	17,684,929	139,000	na	32,600,000	0	0	50,423,929	4.4%
FY1989-90	50,423,929	113,114	na	(10,500,000)	0	0	40,037,043	3.5%
FY1990-91	40,037,043	0	na	(8,100,000)	0	0	31,937,043	2.3%
FY1991-92	31,937,043	0	na	(5,000,000)	0	0	26,937,043	1.8%
FY1992-93	26,937,043	0	na	(9,500,000)	0	0	17,437,043	1.1%
FY1993-94	17,437,043	0	3,063,462	7,250,000	0	0	27,750,505	1.7%
FY1994-95	27,750,505	0	(8,518,701)	7,250,000	(6,000,000)	0	20,481,804	1.2%
FY1995-96	20,481,804	0	(20,481,804)	18,189,565	0	0	18,189,565	1.0%
FY1996-97	18,189,565	0	19,740,786	3,032,333	0	0	40,962,684	2.0%
FY1997-98	40,962,684	0	91,621,018	0	0	0	132,583,702	6.3%
FY1998-99	132,583,702	0	111,616,422	(96,500,000)	(2,000,000)	0	145,700,124	6.9%
FY1999-00	145,700,124	0	20,959,305	3,500,000	(28,000,000)	0	142,159,429	5.9%
FY2000-01	142,159,429	0	77,576,670	(24,500,000)	(25,000,000)	0	170,236,099	6.9%
FY2001-02	170,236,099	0	0	(59,800,000)	(370,000)	0	110,066,099	4.7%
FY2002-03	110,066,099	66,476,446	0	(87,400,000)	0	(30,000,000)	59,142,545	2.4%
FY2003-04	59,142,545	59,463,461	0	(61,191,862)	(385,807)	30,000,000	87,028,337	3.2%
FY2004-05	87,028,337	8,170,556	108,727,007	(26,000,000)	(758,180)	0	177,167,720	5.8%
FY2005-06	177,167,720	0	261,715,297	0	(165,266,227)	0	273,616,790	8.2%
FY2006-07	273,616,790	0	259,929,524	(15,674,107)	(1,784,416)	0	516,087,791	15.1%
FY2007-08	516,087,791	0	191,436,773	(60,177,767)	(101,801,000)	0	545,545,797	15.6%
FY2008-09	545,545,797	0	116,976,571	(54,990,505)	(29,340,000)	0	578,191,863	17.2%
FY2009-10	578,191,863	0	0	(105,000,000)	(5,990,237)	0	467,201,626	14.6%
FY2010-11	467,201,626	0	0	(154,000,000)	0	0	313,201,626	8.9%
FY2011-12	313,201,626	8,422,528	145,155,092	(37,000,000)	3,560,802	(4,461,676)	428,878,372	11.6%
FY2012-13	428,878,372	0	104,789,781	(78,000,000)	(76,008,427)	4,461,676	384,121,402	9.5%
FY2013-14	384,121,402	0	285,292,610	49,400,000	251,294	0	719,065,306	17.5%
FY2014-15	719,065,306	0	96,721,232	(67,701,112)	(20,250,000)	0	727,835,426	16.9%
FY2015-16	727,835,426	0	84,599,532	0	(81,779,850)	0	730,655,108	17.0%
FY2016-17	730,655,108	0	0	0	(50,000,000)	0	680,655,108	16.0%
FY2017-18 Est	680,655,108	150,000	0	(125,000,000)	(118,230,772)	0	437,574,336	9.5%
FY2018-19 Est	437,574,336	0	0	(48,000,000)	(10,005,129)	0	379,569,207	7.9%
FY2019-20 Est	379,569,207	0	0	0	0	0	379,569,207	7.5%
FY2020-21 Est	379,569,207	0	0	0	(10,431,585)	0	369,137,622	6.9%

(1) Automatic transfers reflect the prior year variance from forecast. For example the \$84.6 million transfer in FY15-16 actually reflects FY14-15 "excess" receipts compared to the certified forecast. Prior to FY95-96 the transfers occurred in all cases. After FY95-96 transfers only occurred if receipts were above forecast.

(2) Legislative transfers are enacted by legislation and include transfers to the General Fund or other funds.

# Projected Budget – FY20/FY21 Following Biennium

For the “following biennium” (FY2019-20 and FY2020-21), the budget numbers reflect the annualized impact of the current budget actions plus an estimate of future year increases in entitlement programs, salary and health insurance increases, and other funding requirements that are normally not optional. It is an estimate based on “current law”, i.e. an estimate of future obligations with no change to underlying law that creates the obligation.

Table 5 Projected Budget Increases-Following Biennium  
(includes on-going impact of 2017 budget actions)

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

About 36% of the total projected budget increase in the next biennium is TEEOSA school aid as projected under the current statute. General Funds for TEEOSA school aid is projected to increase by 9.4% in FY20 and 7.1% in FY21. About half of the large increase in both years is the result of expiration of temporary changes included in LB 409 and the TEEOSA formula returning to its original form.

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

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

## **AID TO LOCAL GOVERNMENTS**

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**State Aid to Schools (TEEOSA)** The estimates for FY20 and FY21 are based on the same methodology utilized for the November 15 estimates required under current law for the proposed biennial budget but with Fiscal Office assumptions and should be considered Fiscal Office estimates. The estimates reflect a growth in overall school aid of 9.4% in FY20 and 7.1% in FY21. About half of the large increase in both years is the result of expiration of temporary changes included in LB 409 and the TEEOSA formula returning to its original form.

**Special Education:** Increases for FY20 and FY21 reflect a 2.5% per year increase. Although statute allows for a growth up to 5% the 2.5% is equal to the basic allowable growth rate under the K-12 school spending limitation and TEEOSA calculations.

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

**Homestead Exemption** A 3% per year annual increase is included for the following biennium budget reflecting some level of inflationary increases.

**Aid to ESU's** The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is set at the same rate as the basic allowable growth rate under the K-12 school spending limitation (2.5% per year).

## **AID TO INDIVIDUALS**

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**Medicaid** For the following biennium, the average growth is 4.5% per year. This reflects projected growth of 2.0% per year for population client eligibility and utilization and 2.5% per year for provider rates. This estimate also assumes no change in the federal match rate.

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

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

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

**Developmental Disability Aid** A 4% per year increase is included. This provides the equivalent of 2.5% per year for rate equity similar to the employee salary assumption. Increases in the number of clients is from the fiscal note on LB333 which temporarily suspended the service entitle for graduates in FY18 and FY19. In the LB333 fiscal note, DHHS indicates an estimated 224 individuals will be eligible for the entitlement in FY20. About 150 people will be new graduates turning age 21 in that fiscal year. DHHS recently had a legal interpretation that the state entitlement to services should also apply for high school graduates who move to Nebraska from other states. This has not been the case in the past. HHS indicates there are 74 individuals who meet this criteria. Assuming 224 individuals are eligible for the entitlement for graduates in FY2019-20, the estimated general fund fiscal impact will be \$4,273,565. Assuming an additional 150 new graduates in FY21, the general fund fiscal impact will be about \$7,135,327.

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

## **AGENCY OPERATIONS / CONSTRUCTION**

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**Employee Salary Increases** Although salary increases will be the result of bargaining, some level of increase is factored in more for illustration than planning purposes. A 2.5% per year increase is included which approximates inflation and the current biennium funding. Also in FY19-20 funds are included to annualize the January 1, 2019 1.5% salary increase. This equates to a .75% increase.

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

**Operations Inflation** Included in the projected status is a general 2% increase in agency non-personnel operating costs. Although not provided as an across the board increase, this amount historically covers increases in utility costs at state and higher education facilities as well as food and other inflationary cost increases at 24/7 state facilities such as veterans homes, BSDC, etc...

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

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

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

**Inmate Per Diem Costs** Some costs at the Dept. of Correctional Services such as staffing are “fixed” within a range of inmate population, while some costs change directly with each inmate. This includes items such as food, clothing, and medical care. A 3% per year increase is included to reflect both

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

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

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