HILGERS: Yeah, this is Senator Mike Hilgers, Chair of the Exec Board. I guess, by tradition and not by statute, I'm also the Chair of the Tax Rate Review Committee. Maybe we'll start this morning just with some self-introductions. Mr. Speaker, would you like to get us started on those in person?

SCHEER: Yes. I'm Jim Scheer, Speaker of the Legislature, representing District 19 in northeast Nebraska.

LINEHAN: Good morning. Lou Ann Linehan, District 39: Elkhorn, Waterloo, and Valley.

TONY FULTON: Tony Fulton. I'm the Tax Commissioner.

TOM BERGQUIST: And Tom Bergquist, Legislative Fiscal Analyst--

HILGERS: John--

HILGERS: Thank you, Tom. John?

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

HILGERS: Thank you and thanks to the legislative staff for allowing John and myself to attend remotely. I would be there in person, but I, I am under self-quarantine right now, so I appreciate that. This meeting is of the Tax Rate Review Committee, set by statute. Mr. Fulton-- Commissioner Fulton is an ex officio member of this particular meeting. We will start, as we always do, with a presentation from the Fiscal Analyst so, Mr. Bergquist, would you like to begin?

TOM BERGQUIST: I will begin. My name is Tom Bergquist, Legislative Fiscal Analyst. This is a statutory meeting of the Tax Rate Review Committee. They're required by Section 77-2715.01 to meet between November, November 15 and November 25 and July 15 and July 25 of each year. Actually, this-- these meeting times mirror back in the old days when the old State Board of Equalization used to have to meet during these time periods. They've kind of continued on the tradition with this group when the Legislature started setting the tax rates. I'll basically just go over the report relatively quickly. I sent that out last week. I actually thought we were-- the original plan was to do this a week ago, last Friday morning, out at the Legislative Council meeting. Senator Stinner was going to go over this. I hated to do that ahead of the time, the meeting, but we thought we would do both. But since that didn't work, we'll, we'll do this now. In the report, I'll just quickly go through the summary as on pages 1 through 3, some of the highlights and main areas. The financial status and the change in the status are on page 4 and 5. I'll probably concentrate mostly on page 5 to some extent. Cash Reserve Funds background information, pages 6 to 8. General Fund revenues discussion is on page 9 through 14 and then the projected budget is on page 15 to 23. If I might, I may just go to-- straight to page 4. I do have to go take one step back. Page 1 and 2, I was informed that-- I found I did have an error on there. The page-- the headings did not-- were, were not correct on page 2. I would like to say that I always do that as a, a test. I, I make sure I have one of those in each report to see if anybody's reading, but I, I can't say that that's true.

LINEHAN: So what are the headings?

TOM BERGQUIST: They're-- the headings are FY '21-22 and FY '22-23. I apologize. I got the numbers and everything all correct. I've got the, the headings incorrect.

LINEHAN: So under projected increase to FY '21 base year, the first should be FY '20-21 and the next one should be FY '21-22?

TOM BERGQUIST: Well, '21-22 is the first year, the first column. Where it says '19-20, that should be '21-22.

LINEHAN: And then the next column should be--

TOM BERGQUIST: Should be '22-23. Those are the two years of the biennial budget that we'll be coming-- working on this next session, excuse me.

LINEHAN: OK, that helps a lot, thank you.

TOM BERGQUIST: Sorry about that.

LINEHAN: That's OK.

TOM BERGQUIST: Page 4 is the traditional financial status at this point in time. Our-- the projected financial status going into the start of the next session, we'll be showing as a minus $170 (million), which is a-- significantly much better than what it was at sine die of 2020; $170 million, a little bit short of the, the 3 percent reserve. If I can, let's go to page 5. Page 5 takes us from point A to point B. The current financial status is point B, where we're $170 million short. At the very top on page 5, you'll see at sine die in August of 2020, the '22-23 biennium was the out-year on the financial status. At that point in time when we adjourned sine die, it was looking at being $787 million below the minimum reserve. Two major things have occurred since that point. The first one and most significant was the Forecast Board's forecast at the end of October. It was their first official forecast for fiscal years '22 and fiscal year '23 and they did a revision on fiscal year '21. And you can see under the notes in their change of forecast, they increased '20-21 by $285 million. The next two, '21-22 is $118 million higher, '22-23 was $307 million higher. Just as a quick note, that's the first Forecast Board forecast for those two years. When I say it's up $118 (million) and up $307 (million), that's higher than the number we'd been using in our projected out-year number, which actually was the IHS econometrics estimates run by both us and Department of Revenue in July. So it's quite, quite a dramatic turnaround in the revenues at the October board from what we had been using. For the most part, the first year triggered the other two years. So raising up the first year by $285 million had a tendency to push up the second and third years. As a matter of fact, the growth rates over the prior year and the second and third year didn't really change a lot. What changed was the first year, instead of being minus 3 (percent), it was a plus 1.5 (percent). That 4.5 percent change basically pushed up all the, all the other years. The big question is how did we see such a dramatic change from the July numbers, which was their latest '20-21 and the next two years, versus in October? Two things that struck me: I had given the Forecast Board-- and I think it was some of the information I had sent out to senators after the Forecast Board and I took-- the IHS econometrics has some baseline items, some key factors that they use and I compared the July to the October. And for example, in July, IHS was saying that the 2020 gross domestic product would contract by 6.1 percent. In the October meeting, it was contracting by only 3.5 (percent), a significant improvement there. Consumer spending in July, they were saying a 5.8 (percent) contraction. In October, they were saying a 4 percent contraction. Business fixed investment, 10.3 (percent) reduction. October, it's 4.6 (percent). So the IHS econometrics had significantly altered and improved their projection from the July meeting to the October meeting. The other major change was we were actually starting to get-- receipts were coming in higher than the original projection. If you look at the time July, August, and September, during that three-month time period, we were already about $28 million per month above the July forecast that they did. When you throw in October was $43 million above forecast, we were running-- we were averaging $31 million a month above the July forecast, so that was through four months. Just as a quick check, which always struck me, was to gain $300 million over a 12-month period, you have to average $25 million. So when the Forecast Board raised the forecast $285 (million), it was actually-- we could actually slow down a little bit from what we saw in the first four months. So that, that-- the two things, the two combinations-- because when I first saw that forecast in October, I thought, boy, that was-- I, I wasn't sure I could follow it, but it was coming in. That's also the, the good news. The bad news is it was relying so much on those first four months, so we'll have to keep an eye on that as we go through the next few months. If, if it starts coming in under for the next four months, then we could get a whole different story in February when the board meets again. So that's-- the good news is it was triggering that. The bad news is so much of it rests on what we were seeing in those first four months. The second thing, if you will note, it was-- the first year went up $285 million, the second year was only $118 (million), and then it came back and-- into the $307 (million). Those two-- those last two numbers are actually $87-- about $87 million per year or lower than they otherwise would have been because of the income tax credit under LB1107. There's another area in the report. I talk a little bit more about it. What happened when-- when they changed the '20-21 forecast, the credit amounts for '21-22 is based on revenue growth in 20-- '20-21. All the forecasts prior to that had been well below the 3 percent-- 3.5 percent threshold, so no-- there had been no change in the credit amounts. When the current year shot up $285 million, that actually moved the percent change in revenue to a 7 percent level. So when that went from below 3.5 (percent) to plus 7 (percent), that then hit the amount that raised the property tax-- or the, the income tax credit under LB1107. So that went up $87 million in '21-22. In other words, that $118 million already has that $87 million out of it.

________________: OK.

TOM BERGQUIST: Because it has to actually be-- so it-- one of the-- little bit of a complication because it actually affects the forecast itself, so you'll never see that $87 million because it's already taken out of the revenue number before it ever happened, so that's already been factored in. The third year, there would actually be a reduction in the credit, in the revenue increase, but under the statute, it's always the prior year plus any growth. So the prior year went up $87 million and then it stayed at that same level because it was always the prior year plus any growth. Well, the first year was up

7 (percent), the next year was down 6.5 (percent), but the 6.5 (percent)-- the growth amount was zero and it stays at that higher level, so it established a higher threshold that first year. The other interesting part, and it's a little bit quirky, the only reason we had a 7 percent increase in revenue in '20-21 was because $280 million of income tax was shifted from '19-20 into '20-21. That actually has almost a 10 percent swing because it's taking it out of '19-20 and adding it to '20-21. If you put it back, that's a $560 million difference. So '20-21, without the income tax change in the final in '20-21, would have been a 3 percent reduction in revenues. Because of the $280 million shift, it was now a 7 percent increase. So to some extent, none of that shifting mattered before when the forecast in '20-21 was so low. It just kind of all picked up when they jumped up the forecast. I know, it gets kind of complicated.

LINEHAN: Well, this probably isn't--

TOM BERGQUIST: Sure.

LINEHAN: --not an intelligent question, but the tax credit for-- that we've-- that taxpayers file in April of next year will be at $125 million.

TOM BERGQUIST: Right.

LINEHAN: Then the next year, you're saying it would be--

TOM BERGQUIST: Right, it's a-- it's the '21-22--

LINEHAN: OK.

TOM BERGQUIST: --which will now go up to about $212 million.

LINEHAN: That's if these estimates are correct.

TOM BERGQUIST: That's if these estimates are correct, absolutely.

LINEHAN: Right, so it, it's not a done deal.

TOM BERGQUIST: No, no.

LINEHAN: It could be more, could be less.

TOM BERGQUIST: Exactly.

LINEHAN: OK.

TOM BERGQUIST: It-- yeah and that's where it gets a little bit tricky because that credit amount affects the forecast, but the forecast--

LINEHAN: Right.

TOM BERGQUIST: --gets affected by the credit.

LINEHAN: Right, OK.

TOM BERGQUIST: It's a little bit of a lag.

STINNER: Yeah, Lou Ann, Lou Ann, it will never go under $125 (million), so that-- if you remember our original projections were $125 (million), $125 (million), and then the revenue started to accelerate, so we started to add it. Now it's $125 (million) plus $212 (million) that carries over then into '22-23, so-- and with that 6 percent gain that you're showing there, that 3.5 percent threshold kicks in. I believe that's correct, so--

LINEHAN: Yeah, I--

STINNER: --but it also-- what this also demonstrates is that we-- if-- the numbers that we put together are doable.

LINEHAN: Right, if--

TOM BERGQUIST: Um--

LINEHAN: Yes, if the projections are correct. Thank you, John, appreciate that.

TOM BERGQUIST: Yeah, there's, there's more of a-- some tables and some discussion on page 11. I'll try not to get too much into it, but there's more of a write-up regarding the, the changes in that credit. The other thing, because they raised the forecast $285 million, that was all above the certified forecast. Now the amount-- there used to be-- they-- it used to be that, that anything above the certified would go to the Cash Reserve Fund. That got altered under LB1107 because part of it, the $87 million, went to raising the credit. If you'll see on page 5 line 2, the automatic transfer to the Cash Reserve Fund is the amount above the certified less anything that went into the credit. So you'll see $198 million went into-- so the forecasts all went up $710 million over the three-year period. That's after the $100-- the $187 million per year increase in the credit amount and that's already been taken out of the $710 (million). Then the $198.7 (million) goes to the Cash Reserve Fund, leaving us at $290 million below the minimum reserve after the change in the forecast. The second part of the equation is on the appropriation side. There are two parts on the budget, the revenue side and the spending side. On the appropriation side, the budget-- after the agency budget requests had come in, we had substituted the request in many places for what we'd been using before as historical. The projected budget was actually $120 million below what we'd been using. Almost all of that-- if you look under where it says item 4 on page 5-- I didn't exactly get them in order, but you'll see right in the middle, FMAP, federal match rate for Medicaid, went up again. The federal match rate went up. That saves us $54 million over the two-year biennial budget.

SCHEER: What, what is the match rate going to be, do you recall? If you don't, that's fine. I'm not--

TOM BERGQUIST: It's-- right now, it's close to 55 percent. I couldn't, I couldn't-- I've got it down here. It's actually 56.47 (percent).

SCHEER: OK.

TOM BERGQUIST: That's one of the things that makes me a little bit nervous. We had barely-- back about four or five years ago, we had gotten all the way down to 51 percent. We almost met-- the minimum is absolutely 50 (percent).

SCHEER: OK.

TOM BERGQUIST: Part of that was during the time period, it's all based on your personal income-- state's personal income relative to everybody else's. State personal income shot up when we had $8 corn, to be perfectly frank. Our income relative to everyone else's went up significantly higher, which cost us, over the next three or four years on-- the match rate kept dropping from the mid-50s down to 51 (percent). We had to keep-- we were on the opposite end of this. Instead of savings, we had to keep raising the General Fund budget to offset-- to replace the, the, the dropping federal funds. Now we've been going better and we've been getting some of that match rate back.

LINEHAN: But couldn't the same thing happen now because we're so much-- have regressed, the country?

TOM BERGQUIST: That-- you have now hit my concern. When we do our projected out-year budget, I have not altered the match rate.

LINEHAN: OK.

TOM BERGQUIST: I've left it at the 56 (percent). That makes me uncomfortable because I do think-- I would suspect when we get into year 4 and 5, that us doing better now is going to-- we're going to end up paying the piper. I, I wish I could guess how much it might be. I just don't know what the change of-- but that, that's a caution in our out-year projection again that we might get caught with that. And that-- instead of saving $54 million over the two years, it could cost us $50 more-- $54 million.

SCHEER: But that could, that could also change federally if they change how they--

TOM BERGQUIST: Recognize--

SCHEER: --distribute and--

TOM BERGQUIST: Yes. It's become one of the largest items because, you know, it's almost $2 billion for Medicaid between state and federal. So, you know, 1 percent, it's taking-- it's one-- it's not 1 percent of the state share, it's 1 percent of the total share, so it can be-- it's-- each 1 percentage point is close to $20-some million, so it, it gets to be quite dramatic both ways. Like I said, it wasn't that big of an issue back when Medicaid was $25 million, when its $600 million.

LINEHAN: Tom, before you jump--

STINNER: But I think Jim, but I think Jim makes a good point. If we're actually increasing our match and we're in much better shape than other states, then the bad states are pulling more and more money, which is increasing the amount of pressure on the fed budget. So there may be some, some adjustments in the fed budget that may have some consequences on us. And I've always been concerned with this expansion. At 90 percent reimbursement, that, that's a scary number for me, so I-- I'm just-- as a word of caution, be careful on the Medicaid side.

TOM BERGQUIST: The other, the other two parts under there that we saved the most, there was a HIPF provider fee. There was a requirement that we-- it, it was-- it, it's a complicated issue. It had to do with us being considered a provider and having to pay a rate under the Affordable Care Act. Our state costs had been waived. We were then supposed to have paid it back in 2019. We had to put $15 million a year into the budget because they hadn't reenacted that continued waiver. They ultimately did and deleted us having to pay for it so we could take out $15 million per year in Medicaid for that rate. The third thing that Senator Stinner had talked about, Medicaid expansion, we had an October 1 start date. We had been budgeting, projecting that that was only nine months' worth of-- we had to add the rest of the year in to annualize the cost. At this point, what they have experienced in October so far, the Medicaid expansion, the amount we had originally had included, they believe was adequate. Now any other time, I would have been a little bit more leery because normally you start October 1, well, it's going to ramp up a little bit. Well, sign-ups actually started August 1, so when they started October 1, it wasn't exactly a-- they already had two months in which to apply and be ready to go. But again, we pick up $30-- about $34 million over the two-year biennial budget, but again, that's-- you can kind of put question mark on, on that part too. So obviously as we go through the process and the farther along we go, the more we're going to know. But those are the bulk of the areas where we saved $120 million on the projected budget. Again, that's just a projection. There are some items in there-- for example, provider rates, Department of Health and Human Services' budget request did not request anything-- any change in DHHS provider rates.

LINEHAN: Didn't we just increase them, though?

TOM BERGQUIST: Well, there was some temporary ones under the feds, but we had increased--

LINEHAN: But [INAUDIBLE] our budget that we just passed--

TOM BERGQUIST: Well--

LINEHAN: --the budget that we passed last year, it increased--

TOM BERGQUIST: In '19, we did 2 percent a year. It didn't even-- we barely covered inflationary rates on those. This request would be to freeze-- based on the request, it would be to freeze them for another two years.

LINEHAN: OK, I, I didn't bring the budget with me. I thought they went up more than that, but maybe I'm confused with something else.

TOM BERGQUIST: There's a few differences.

LINEHAN: Um--

TOM BERGQUIST: So this, this includes-- the current projected status still leaves in the equivalent of about 2.5 percent a year on provider rates.

LINEHAN: OK, so we, we are increasing 2.5 (percent) a year or they're flat?

TOM BERGQUIST: It's-- this projected budget where we're showing minus $170 (million), that assumes that we would do a 2.5 percent per year.

LINEHAN: OK.

TOM BERGQUIST: Now this is all going to start all over again in January when the Appropriations Committee starts the whole process. We'll be taking out-- the projected budget will get thrown out and the one that the committee starts working on will be substituted. So that, that's-- just for your own information that, that, that's included in there.

LINEHAN: OK.

TOM BERGQUIST: Now the last three bienniums, HHS, they've never said we should or shouldn't raise their rates. They just left nothing in there. So they didn't say we're not going to increase the rates because we don't need to change the rates, they were just totally silent about them. They just left it where it was. So it-- they kind of left it up to the, the Governor and Legislature to discuss that issue. I just wanted to make sure you understood that this did have that in there.

LINEHAN: OK, can you explain the TEEOSA number on page 5 under item 4?

TOM BERGQUIST: That was the change-- we met-- relative-- that-- this is the change from the number we had been using previously.

LINEHAN: What was the number you were using previously?

TOM BERGQUIST: I have a write-up of that on page, page 17. Our current--

LINEHAN: Well, you-- why don't we just wait till we get to page 17 then.

TOM BERGQUIST: Well, I was just-- I, I, I can go there right now. I wasn't planning on going through all of those items, but that is the number based on-- we met in the first week of November. By statute, we're required to meet with the Governor's Budget Office, our office, Department of Education, and the Property Tax Administrator. And using updated available data for the '21-22 and '22-23, we had actual valuation data that will affect the '21-22 amount. We had the first budget-to-budget growth numbers, which affect the '22-23 number. So when it was all said and done, the final numbers on page 17 is $1,087,000,000 for '21-22 and a $1,140,000,000. The 3.3 (percent)--

LINEHAN: But why would it go up when-- when valuations are going up? Aren't value-- aren't residential valuations and commercial going up?

TOM BERGQUIST: Yes and so it's also based on you have one year-- both your needs and your resources both go up.

LINEHAN: OK, so I did read this. So your commercial and residential valuations are going up pretty significantly, right?

TOM BERGQUIST: Yes and ag land is going down.

LINEHAN: Yeah, but we don't generally-- TEEOSA doesn't go to where there's ag land so that doesn't really affect the TEEOSA number, does it?

TOM BERGQUIST: It does some, it does some, yes.

SCHEER: Lou Ann, part of it, though, is right now-- this year, you have a 4.5 percent growth factor.

LINEHAN: Uh-huh.

SCHEER: Starting next year, they move it up to 5 percent, so it will use more in dollars. So it would, it would eat more dollars going out because they're allowing a 5 percent growth versus a 4.5 (percent).

LINEHAN: So this is why I think a lot of people get confused. And Tom, you've tried to teach me and I'm still trying to learn. We say in the formula it's 2.5 percent, but we budget 5 percent--

TOM BERGQUIST: Well--

LINEHAN: --because--

TOM BERGQUIST: --right now we're using 3.74 (percent) and 3.5 (percent).

LINEHAN: Where are those numbers? I'm sorry.

TOM BERGQUIST: On page 17, at the top of the page-- of that table, it shows the disbursements. Historical spending has been a little bit under 5 percent. And yes, that's with the spending. You have allowable growth rate, but you have prior year unexpend-- you have budget authority-- unused budget authority that carries forward. You have certain special education and other transportation that are excluded from the 2.5 percent allowable growth.

LINEHAN: Where--

TOM BERGQUIST: There's, there's lots of other different things.

LINEHAN: Right, I'm just-- this is a-- so when we budget, we budget for an increase above a 2.5 percent?

TOM BERGQUIST: We, we budget to what we think that spending is going to go up.

LINEHAN: Right, well-- because I think there's a lot of confusion. People think we should increase it 2.5 percent a year, but we actually increase it by more than that every year-- or not every year--

TOM BERGQUIST: The--

LINEHAN: --but most years.

TOM BERGQUIST: Right, but, but the items that are always the difference between the allowable growth rate and-- so there's other things in the formula that allow--

LINEHAN: I'm--

TOM BERGQUIST: --them to spend 2 percent more than the 2.5 (percent) allowable growth rate.

LINEHAN: Yes, OK.

TOM BERGQUIST: So that's all-- that gap is already in-- inherent in the numbers.

LINEHAN: So this-- going back to page 5 where you say there's going to be a savings of 9.2 percent-- is that what that says?

TOM BERGQUIST: $9.2 million--

LINEHAN: OK, $9.2--

TOM BERGQUIST: ---from what we had projected previously.

LINEHAN: And that savings is because valuations are going up? What, what--

TOM BERGQUIST: It's a combination of a whole bunch of different things. If you go to page 18--

LINEHAN: Yes.

TOM BERGQUIST: --we try to go through-- that's the, that's the chronology. You can see all those different items.

LINEHAN: OK, I just-- I guess my, my word of caution here would be-- I understand valuations. It just seems to me that ag is going down, residential and commercial are going up. I don't see how, how much-- question how much it affects TEEOSA that ag is going down.

TOM BERGQUIST: Well--

LINEHAN: Are these the numbers here you're--

TOM BERGQUIST: --let, let me take a step back.

LINEHAN: OK.

TOM BERGQUIST: Let me take a step back, which gets a little bit confusing on page 5.

LINEHAN: OK.

TOM BERGQUIST: Those numbers on page 5 show the impact on the financial status, that variance. So when you see a minus $9.2 (million), the minus $9.2 (million) actually--

STINNER: That's an increase in the--

TOM BERGQUIST: --it actually means it, it reduces the amount of funds that are available because TEEOSA actually goes up $9.2 million.

LINEHAN: I see.

TOM BERGQUIST: Now--

STINNER: The savings are $4.2 (million) and the increase is $9.2 (million).

TOM BERGQUIST: Right. Yeah, I apologize. That's-- yeah, because I say right above that it-- because it's showing the impact on the amount of available funds, so an increase in the appropriation actually reduces the amount of available fund.

LINEHAN: OK.

TOM BERGQUIST: That's why that Medicaid, they show you a plus $54 (million) because it lowers our appropriation by $54 million and basically adds that to the status.

LINEHAN: OK, I get it now.

TOM BERGQUIST: Right.

LINEHAN: I was reading--

TOM BERGQUIST: So back on page 18, you'll see we had a total of $10.5 million actual increase in the total TEEOSA. The $9.2 (million) is the General Fund amount.

LINEHAN: OK.

TOM BERGQUIST: Most of that-- the $10.7 million increase, we had been using a 2.8 percent spending growth. We upped that to 3.6 (percent) and the reason we upped that is-- one of the reasons the spending growth was so low originally was OPS was, was very low. They came in with a revised budget in the middle of the year and significantly raised it back up. You'll see at the top of that that we had been estimating 2.78 (percent) as valuation. It actually came in at 2.21 (percent). That's why there was hardly any impact on TEEOSA from our sine die estimate because the actual estimated valuation had already been built in.

LINEHAN: OK.

TOM BERGQUIST: So that's where it's different with the change because it's-- the change from sine die to now is what were the assumptions then versus the assumptions now? So that increase in residential and commercial/industrial relative to ag was already factored in.

LINEHAN: So are those numbers the numbers you were using last year when we were doing all the school and tax stuff? Because then I think you had residential going up 5 percent.

TOM BERGQUIST: Right.

LINEHAN: OK, so those numbers stay the same here.

TOM BERGQUIST: Right.

LINEHAN: OK. And then on the homestead exemption, isn't that more like $5 mill-- doesn't it go up, like, 5 percent a year?

TOM BERGQUIST: Yes. What happened-- we-- the '21-22 numbers can be a little bit quirky. And the reason they're a little bit quirky because the '21-22 number affects-- or excuse me, the '20-21 is a little bit quirky and the reason being is because '20-21 has both the '20-21 numbers and the '19-20 deficits. Because we met after the '19-20 year was closed--

LINEHAN: Oh, OK.

TOM BERGQUIST: --we had to take a dip. So the '20-21 number is artificially high because we had to include the deficit in.

LINEHAN: OK.

TONY FULTON: He gives an explanation on page 18.

STINNER: Tom, isn't the homestead exemption given to us by the Department of Revenue--

TOM BERGQUIST: Yes, yes.

STINNER: --and that's what you put in here, their actual estimate?

TOM BERGQUIST: Yes. Commissioner Fulton, right--

STINNER: OK.

TOM BERGQUIST: --page 18-- I have a little discussion of that on page 18.

LINEHAN: OK, I got--

STINNER: Sure.

TOM BERGQUIST: And to some extent, the spending growth number we have for '21-22 is only 1.3 percent. That's a little bit, that's a little bit artificially low because one of the big deficit things we had to actually-- instead of funding as a deficit, we had to add to '20-21 was $55 million for the Governor's emergency program for the 2019 flood. So the first thing we can do when we get into '21-22, setting the budget, is reduce the budget by $55 million to take that one-time thing out. That's the equivalent of almost a full-- that's-- it is a full 1 percent on the budget growth. So '20-21 is a little bit weird because we had to double up in a bunch of places for the def-- what normally would have been a '19-20 deficit.

LINEHAN: Okey doke.

TOM BERGQUIST: Actually, I guess I covered most of the points that I wanted to do. So where we're sitting right now would be $170 (million). I do want to mention-- you go back to the status, the out-year shows us becoming a positive $124 million.

LINEHAN: OK. Tom, what page are you on?

TOM BERGQUIST: I'm-- let's go back a page 4.

LINEHAN: OK.

TOM BERGQUIST: So almost everything in the rest of the report talks about up through the '21-22, '22-23 biennium. When that moved forward, we also brought in '24 and '25 as the new out-years, the following bienniums. And you'll see we go from minus $170 (million) to a plus $124 (million). One of the concerns is if you look on line 30, the estimated revenue growth (rate/base adjusted), we're going back to our historical average method of arriving at the out-year numbers, which is what revenue growth do I need in year four and five to get me back to about a 4.5 percent average over the five-year period? Because the first few years are 1.41 (percent) and then up to 6 (percent), I need to use a 6.8 percent per year growth out there to get us back to a 4.4 percent average. That's based on that-- the, the methodology we've been using in the past. The ironic part is we moved off that methodology for a short period at the end of the session because we were so close to the Forecast Board meeting--

LINEHAN: Yes, I remember.

TOM BERGQUIST: --and then that jumped back up.

LINEHAN: Um--

TOM BERGQUIST: The reason I'm concerned about that is that's a lot higher. It's much higher than anything that us or Revenue had run for those two years. It traditionally will be higher. This one's a little bit-- even more higher.

LINEHAN: But I don't know-- so--

STINNER: The other thing, Tom, that, that isn't reflected is the normal transfers of $70 million to $80 million, which impact the $170 (million), will bring that back to $90 million to $100 (million)--

TOM BERGQUIST: I know.

SCHEER: --depending on how much we transfer and--

TOM BERGQUIST: I--

STINNER: --so that, that will be-- help.

LINEHAN: OK, I was--

TOM BERGQUIST: I wouldn't plan on more than $40 million to $50 million at the most.

LINEHAN: Well, can I, I-- because that's on page 14, what you're talking about, right? John, are you, you talking about the transfers on page 14?

STINNER: I'd have to get to 14--

TOM BERGQUIST: Yes.

STINNER: --let's see.

TOM BERGQUIST: Yes.

STINNER: There are normal transfers that we do from Securities, banking-- 14, 14-- I've got to get my glasses on so I can see.

LINEHAN: The half-- the top of the page says "Rural Workforce Housing."

STINNER: Now that's a transfer-- that, that's a--

LINEHAN: No, I'm not--

STINNER: That is a number, $10 million--

LINEHAN: I have-- I don't have a question about that.

STINNER: --that will be acquired--

LINEHAN: John, I don't have a question about that. I was just trying to help you find the page.

SCHEER: Right at the bottom of that page.

STINNER: Oh, oh, OK.

TOM BERGQUIST: Bottom of page 14 is General Fund transfer. The current, the current year is $51.3 million. Those are manual transfers--

STINNER: Yeah.

TOM BERGQUIST: They are manual transfers made by the Legislature. They are not included in the Forecast Board. It took us a long time to try to, to not put them in the Forecast Board number. The reason being years and years ago, they wanted-- the people wanted to put that in the forecast. Well, it was anticipating that-- something that the Legislature hadn't done yet. And if we had put in $40 million in the forecast and then the Legislature only transfers $30 million instead of $40 million, now it looks like a $10 million reduction and it would have been total confusion trying to put in-- since when does transferring $30 million lead to a $10 million reduction? That's why we don't put anything in for the transfers.

LINEHAN: OK, so I wrote--

TOM BERGQUIST: [INAUDIBLE]

LINEHAN: --when I was reading this this morning, I wrote here, have we ever not transferred these funds, ever not transferred funds?

TOM BERGQUIST: We have always transferred some--

LINEHAN: OK.

TOM BERGQUIST: --but we never factor it into our status until it's been approved and start part of the process.

LINEHAN: And that can be anywhere from $40 million to $70 million?

TOM BERGQUIST: We have had years where we have bumped them way up. We've actually--

LINEHAN: The first year I was here.

TOM BERGQUIST: --we've actually maxed it out. I apologize to Senator Stinner. We have, we-- the $51 (million)-- what we're starting to look at is we'll be lucky to get maybe $21 (million) out of banking and we're probably talking about maybe $8 (million) to $9 (million) on insurance, so the amount that we'll have available will be less. We--

LINEHAN: Why, why is it that?

TOM BERGQUIST: Because we've actually maxed out-- we've drawn their balances down to a point where they shouldn't.

STINNER: We drew the balances down, Lou Ann, over a period of time, but Tom's right. The first three in that column, Securities Act, instead of $28 (million), you can pencil in, I would say $20 (million) and probably be safe-- Tom is saying $15 (million)-- $10 (million), the next, is what I've got penciled in and then $3 (million)-- $3 (million) to $4 (million). So that will be the-- Tom, that's an annual transfer, right?

TOM BERGQUIST: Right.

STINNER: And so when we deal with a biennium budget, we basically could take that times two.

TOM BERGQUIST: And, and we're already getting some information from banking that they may not even have the $28 (million) this year.

LINEHAN: Well, I guess banking would be pretty good.

STINNER: But then-- if they have $20 (million), that would be great.

LINEHAN: Aren't banks, like, [INAUDIBLE] right now?

STINNER: That's actually, that's--

TOM BERGQUIST: This is--

STINNER: I guess my point is there's transfers--

TOM BERGQUIST: Yes.

STINNER: --that we normally do--

TOM BERGQUIST: Yes.

STINNER: --that aren't in the-- aren't in--

TOM BERGQUIST: Yep.

STINNER: --this financial status that will be put in place that possibly could pull the $170 (million) down--

TOM BERGQUIST: Yes.

STINNER: --closer to $100 (million).

LINEHAN: OK. All right, thank you.

STINNER: So that's--

LINEHAN: OK.

STINNER: --that was my only point.

TOM BERGQUIST: Yep.

LINEHAN: That's very good, thank you.

TOM BERGQUIST: The-- as I look at this, to me, one of the real keys is watching our monthly revenues. Now it's something I've always thought for several years we might want to think about changing. The statute says that we certify the forecast. We don't recertify it when the forecast goes up. So the certified forecast that triggers whether you transfer to the Cash Reserve Fund is still back to the July forecast. Statute says when Department of Revenue issues their monthly press releases, they have to compare the actual receipts to the certified. So when November comes out, November may come out to be, oh, we're $40 million above the forecast. Well, that's to the July forecast. It may be $5 million under our current forecast, but by statute, they have to do the press release relative to the certified. I think that gets totally confusing for everybody because it makes it sound like we're $40 million above forecast when, in fact, we're right on forecast. But that's because it's to that original certified. Tony probably-- you probably get those questions a lot, so I'm just-- I'm giving you a heads-up. The key is going to be watching, as we get in November, December, January, on the revenue sides. But those press releases are going to be confusing because they're still going to be comparing it back to the July number, not to the October number. I think that's something that we should probably think about changing. I haven't talked with the Commissioner about that, but I think it gets confusing when the press release comes out and it, and it's not compared to the latest forecast, it's compared to the oldest.

SCHEER: You got a semantics problem.

TOM BERGQUIST: Yeah, it-- I think it just-- it's totally misleading to be frank.

HILGERS: [INAUDIBLE]

TOM BERGQUIST: --but something else.

HILGERS: Thank, thank you. Thank you, Tom. Are there any other questions from any of the, the senators or Commissioner Fulton?

TOM BERGQUIST: And feel free, if you have other questions at another time, outside of this even, you can contact me at anytime you would want.

LINEHAN: I, I, I do have just a comment.

TOM BERGQUIST: Um-hum.

LINEHAN: I, I think it's right mathematically, but on page 12, the amount of income tax credit, it doesn't go above $375,000. You've got it in '23-24, $394,000, but isn't it-- it's-- when we hit $375,000, that's it, right?

SCHEER: No, that's not.

TOM BERGQUIST: No.

LINEHAN: No, it's not?

SCHEER: No because you have the adjustment of the property valuations each year that would raise it above--

LINEHAN: That's right, thank you. I should know that. OK.

TOM BERGQUIST: No, it actually is the-- it's, it's the prior year plus the growth. Then starting in '24-25, it's fixed at $375,000 and then starting the year after that, it's plus the revenue, plus growth in valuation.

LINEHAN: OK.

TOM BERGQUIST: But it says not to-- it, it doesn't say not to exceed $375,000, at least in those first couple of years. What happens is when I get to '23-24, you'll see that '22-23-- it's based on '22-23 number. That's when we start getting the 6 percent revenue growth, the rate/base adjusted. And to be perfectly frank, the, the 3.5 percent threshold is not rate/base adjusted, it's pure percent change over the prior year. That's why the $280 million on the income tax, we adjust for that as a rate/base adjusted growth because that's not revenue growth, that's just a shift in it, but the threshold is a flat percentage change over the prior year. That's why it jumps way up in '23-24 again because you have-- see, see up above, you have a 7.2 percent-- you can see the pure percentage changes are plus 7 (percent), minus 6.9 (percent), and plus 7.2 (percent) at the top of page 12. So I told the Forecast Board that from looking at one year to the next-- over last year and the next two years, it's probably the most complicated and convoluted that I've ever seen. I mean, you have a 10 percent change just by that shift in income tax and then you throw in all the other income tax stuff that was happening under the CARES Act and this new credit, income tax credit. I mean, there's, there's all kind-- trying to compare one year to another year without going through all of those hoops and adjustments is very, very difficult. But anyway, I'm finished.

TONY FULTON: I think the year 2020 is going to have a big asterisk by it regardless.

TOM BERGQUIST: Yes, it is.

LINEHAN: But--

TOM BERGQUIST: I had forgotten when I did my list, '20-21 actually has $20 million that was shifted from-- excuse me, '18-19 shifted $20 million to '19-20 because of the income tax on the flood where that one zip code got an extension of their income tax, so-- and then it got $280 million shifted to the next year, so it, it's--

________________: Crazy.

TOM BERGQUIST: There are so many moving parts across there.

LINEHAN: But, but if we get through December and the economy is still clicking as it has been-- and I know that's a big if, but we're almost there, six weeks-- shouldn't our income revenues for next year be-- the-- that they pay in March would be not affected, right? It would be up.

TOM BERGQUIST: Well, by the time we get into February, we know, we know a lot of the refund parts.

TONY FULTON: Yeah, the refunds go first.

TOM BERGQUIST: The final payments is the April surprise.

TONY FULTON: Right. I mean, that's--

TOM BERGQUIST: Are they coming in or not coming in?

LINEHAN: OK. All right, thank you very much.

TOM BERGQUIST: Um-hum. I think I'm--

HILGERS: All right.

TOM BERGQUIST: --I'm finished, Senator.

HILGERS: Thank you, thank you. Are there any other comments or questions?

_______________: Seeing none--

HILGERS: All right, I appreciate that. Do we have any motions?

SCHEER: I, I would just, simply from conversational purposes, say that based on what I've seen, I don't see there's a necessity to make any adjustments and if there's no necessity for adjustments, there's no motion, so I would-- that would be my comment.

LINEHAN: I second that.

HILGERS: Yeah, I would agree. I would agree. I was informed before this meeting that we do not need a motion to not do a special session. If we don't need to move the rate, then we, we-- no mo-- we don't need to do a motion at all. The only thing I would do, it's a housekeeping matter, is to direct Mr. Bergquist to file an electronic copy of this report, as required by statute, with the Clerk of the Legislature--

SCHEER: You know, my comment was just conversational--

HILGERS: --and other than that-- oh-- go ahead.

SCHEER: I said my comment was conversational. It wasn't a motion.

HILGERS: Well, no, I, I heard that. I, I, I noticed the nuance, Mr. Speaker. That was more-- I'm not sure who did the [INAUDIBLE]. I wanted to-- for, for the record, I wanted to make sure that was clear, so-- well, unless we have any other business, I-- our, our official business is completed, so we can adjourn.

LINEHAN: Thank you.

SCHEER: Thank you, Mike.

TOM BERGQUIST: Thank you very much.

HILGERS: All right, thanks, everybody.

TOM BERGQUIST: This is always a tough one to schedule.