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Legislative Fiscal Office
PO Box 94604, State Capitol
Lincoln, NE 68509-4604

November 18, 2015

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Clerk of the Legislature

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Director of Research

MARTHA CARTER
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JOANNE PEPPERL
Revisor of Statutes

MICHAEL CALVERT
Legislative Fiscal Analyst

MARSHALL LUX
Ombudsman

Mr. Patrick O'Donnell
Clerk of the Nebraska Legislature
Room 2018, State Capitol
Lincoln, NE 68509-4604

Dear Mr. O'Donnell:

As required by R.S. Supp 2014, 77-2715.01(2), I am submitting to you at the direction of the Tax Rate Review Committee this letter and its attachments as the annual report of the Committee for 2015.

The attachments are reports reviewed by the Committee on July 22, 2015, and November 18, 2015. At each meeting, the Committee determined there was no need to call the Legislature into special session to adjust tax rates.

Further, as required by law, this report incorporates by reference the most recent tax expenditure report prepared by the Department of Revenue, as set forth by R.S. Supp. 2014, 77-382. The most recent report may be accessed at the following web address: http://www.revenue.nebraska.gov/research/tax_exp_reports.html.

If you have any questions, please contact me at 402-471-0059.

Respectfully submitted on behalf of the Committee.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Calvert".

Michael Calvert
Legislative Fiscal Analyst

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Attachments

TAX RATE REVIEW COMMITTEE

July 22, 2015

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 Heath Mello
Senator Bob Krist
Senator Galen Hadley
Senator Mike Gloor
Leonard J. Sloup**

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 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.

Summary

1. Actual receipts for FY2014-15 were \$10.1 million above the forecast used at Sine Die of the 2015 Session which was the April 2015 forecast of the Nebraska Economic Forecast Advisory Board (NEFAB). Adjusted revenue growth for FY2014-15 based on actual receipts is 6.2% compared to the 6.6% growth calculated per the April forecast. The higher receipts but lower adjusted growth reflects changes in the adjustments, mostly lower tax incentive sales tax refunds and higher automatic cash fund transfers
2. The projected General Fund financial status for the current biennium improves with the projected ending balance going from \$2.3 million to \$17.2 million above the minimum reserve. The “above forecast” FY15 receipts subsequently go to the Cash Reserve Fund with no net gain while the variance from the minimum reserve actually goes down by about \$11 million when the minimum reserve is recalculated taking into consideration reappropriations. However these are more than offset by an estimated \$25 million of lapsed appropriation obligations.
3. The Cash Reserve Fund is projected at an unobligated balance of \$708.2 million taking into consideration transfers that are authorized for the State Capitol HVAC to FY2022-23.
4. The current status is based on the existing revenue forecast for FY2015-16. The NEFAB will not meet to evaluate this existing FY15-16 revenue forecast until October. With the lower adjusted growth in FY14-15 actual receipts (+6.6% growth vs. +6.2%), the FY15-16 calculated growth is now 5.3% with the existing forecast compared to the Sine Die estimate of 4.9%
5. The projected financial status for the following biennium, FY2017-18 and FY2018-19, shows a variance from the minimum reserve of a negative \$69.5 million, an improvement from the Sine Die estimate. The “loss” from recalculation of the minimum reserve for this biennium does not occur for the following biennium while the gain from the assumed lapsed appropriations carries forward.

Current General Fund Financial Status

(With FY2014-15 Actual Revenue & Expenditures)

	Actual FY2014-15	Biennial Budget FY2015-16 FY2016-17		Following Biennium FY2017-18 FY2018-19	
1 BEGINNING BALANCE					
2 Beginning Cash Balance	673,683,437	732,273,130	262,963,924	289,049,244	267,789,695
3 Cash Reserve transfers-above certified prior yr	(96,721,232)	(84,599,532)	0	0	0
4 Unexpended FY14-15 obligations	0	(389,161,805)	0	0	0
5 Est lapse FY15 carryover obligations	0	25,000,000	0	0	0
6 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	576,962,205	283,511,793	257,963,924	284,049,244	262,789,695
8 REVENUES					
9 Net Receipts (Actual and Sine Die Adjusted)	4,305,099,326	4,473,856,000	4,645,441,000	4,790,502,000	4,948,411,000
10 General Fund transfers-out	(188,350,000)	(217,600,000)	(217,100,000)	(216,300,000)	(216,300,000)
11 General Fund transfers-in	in actual	in forecast	in forecast	0	0
12 Cash Reserve transfers-legislative	67,701,112	0	0	0	0
13 Accounting adjustment	1,264,795	0	0	0	0
14 General Fund Net Revenues	4,185,715,233	4,256,256,000	4,428,341,000	4,574,202,000	4,732,111,000
15 APPROPRIATIONS					
16 Expenditures/Appropriations	4,030,404,308	4,271,803,869	4,397,255,680	4,397,255,680	4,397,255,680
17 Projected budget actions (2015 Session)	--	--	--	193,205,869	387,704,092
18 Midbiennium adjustments (2016 Session)	0	5,000,000	0	0	0
19 "A" Bills (2015 Session)	0	0	0	0	0
20 General Fund Appropriations	4,030,404,308	4,276,803,869	4,397,255,680	4,590,461,549	4,784,959,772
21 ENDING BALANCE					
22 Dollar ending balance (Financial Status as show	732,273,130	262,963,924	289,049,244	267,789,695	209,940,923
23 Dollar ending balance (at Minimum Reserve)	--	--	271,813,707	--	279,476,570
24 Excess (shortfall) from Minimum Reserve	--	--	17,235,537	--	(69,535,647)
25 Biennial Reserve (%)	--	--	3.2%	--	2.2%
26 General Fund Budget					
27 Annual % Change	7.0%	4.0%	2.9%	4.4%	4.2%
28 Two Year Average % Change	6.3%	--	3.5%	--	4.3%
29 General Fund Revenues:					
30 Adjusted Growth	6.2%	5.3%	4.3%	4.1%	3.8%
31 Two Year Average	4.7%	--	5.1%	--	5.1%
32 <u>Structural Revenues vs Appropriations</u>	87,609,813	(20,547,869)	31,085,320	(16,259,549)	(52,848,772)

CASH RESERVE FUND	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Beginning Balance	719,065,306	727,835,426	728,615,207	728,615,207	728,615,207
Excess of certified forecasts (line 3 in Status)	96,721,232	84,599,532	0	0	0
To/from Gen Fund per current law	(67,701,112)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(14,500,000)	(75,819,751)	0	0	(20,436,714)
From State Patrol Cash Fund (ERROR)	(250,000)	0	0	0	0
To Republican River Compact Litigation Continge	(5,500,000)	0	0	0	0
To Oral Health Training and Services Fund	0	(8,000,000)	0	0	0
Ending Balance - Current Status	727,835,426	728,615,207	728,615,207	728,615,207	708,178,493
Ending Balance as % of Revenues	16.9%	16.3%	15.7%	15.2%	14.3%

Changes in the Financial Status since Sine Die 2015

(millions of dollars)	FY16/FY17 Biennium	FY18/FY19 Biennium
1. Variance: Sine Die 2015 ----->	2,342,592	(95,035,249)
2. Carryover obligations from FY13-14	0	0
3. FY15 Actual vs Est General Fund Net Receipts	10,099,326	10,099,326
4. FY15 Actual vs Est Transfers-Out	0	0
5. FY15 Actual vs Est CRF transfers-automatic	(10,099,532)	(10,099,532)
6. FY15 Actual vs Est Accounting adjustment	1,264,795	1,264,795
7. Assumed lapse, FY15 unexpended	25,000,000	25,000,000
8. Rounding on revenue numbers	0	0
9. Recalculate 3% minimum reserve	(11,371,643)	(764,988)
8. Total \$ Change Since Sine Die	14,892,947	25,499,601
10. Current Financial Status ----->	17,235,539	(69,535,648)

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 21190 Convention Center Support	in refunds
Transfer-Out Fund 21195 Sports Arena Support	in refunds
Transfer-Out Fund 21540 & 21541 Dept of Revenue enforcement	(750,000)
Transfer-Out to Mutual Finance Assistance Fund, cash flow	(1,675,000)
Transfer-Out State Patrol drug purchases (diff between \$115,000 and unexpended)	(19,068)
All other accounting adjustments	3,708,863
Total Accounting adjustment	1,264,795

Lapse of Unexpended FY2014-15 Funds

Unlike the prior biennium, 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 \$25 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.

FY2014-15 Actual General Fund Receipts

Table 1 compares the various forecasts with actual receipts for FY2014-15. Table 2 shows actual receipts and adjusted growth for FY2014-15 and the previous five years, Table 3 shows a chronology of the FY2014-15 forecasts and Table 4 provides historical revenues and adjusted growth rates.

FY2014-15 actual receipts were \$10.1 million above the Sine Die estimates (April 2015 NEFAB forecast) and \$84.6 million above the certified forecast from July 2014.

Table 1 FY2014-15 Actual Receipts vs Forecast

	Cert July 2014 FY2014-15	Oct 2014 FY2014-15	Feb 2015 FY2014-15	April 2015 FY2014-15	Actual FY2014-15	\$ Variance Cert July 2014	\$ Variance Oct 2014	\$ Variance Feb 2015	\$ Variance April 2015
GROSS RECEIPTS									
Sales and Use	2,113,149,000	2,141,637,000	2,115,757,000	2,110,413,000	2,077,969,057	(35,179,943)	(63,667,943)	(37,787,943)	(32,443,943)
Individual Income	2,581,388,000	2,547,247,000	2,560,386,000	2,575,494,000	2,585,182,066	3,794,066	37,935,066	24,796,066	9,688,066
Corporate Income	306,295,000	372,516,000	383,920,000	379,035,000	377,110,289	70,815,289	4,594,289	(6,809,711)	(1,924,711)
Miscellaneous	213,461,000	212,057,000	201,070,000	200,062,000	217,791,194	4,330,194	5,734,194	16,721,194	17,729,194
Total Gross Receipts	5,214,293,000	5,273,457,000	5,261,133,000	5,265,004,000	5,258,052,606	43,759,606	(15,404,394)	(3,080,394)	(6,951,394)
REFUNDS & CREDITS									
City Sales Tax	373,920,000	372,884,000	375,937,000	373,460,000	373,538,071	(381,929)	654,071	(2,398,929)	78,071
State Sales and Use	121,668,000	106,413,000	97,458,000	95,283,000	86,725,977	(34,942,023)	(19,687,023)	(10,732,023)	(8,557,023)
Sales tax to Highway Fund	73,564,000	74,504,000	74,424,000	73,834,000	73,742,441	178,441	(761,559)	(681,559)	(91,559)
CSI Turnback	7,575,000	7,836,000	7,938,000	7,836,000	8,543,052	968,052	707,052	605,052	707,052
Individual Income	373,685,000	382,247,000	385,386,000	385,494,000	379,718,163	6,033,163	(2,528,837)	(5,667,837)	(5,775,837)
Corporate Income	43,295,000	47,516,000	36,920,000	34,035,000	30,632,911	(12,662,089)	(16,883,089)	(6,287,089)	(3,402,089)
Miscellaneous	86,000	57,000	70,000	62,000	52,664	(33,336)	(4,336)	(17,336)	(9,336)
Total Refunds/Credits	993,793,000	991,457,000	978,133,000	970,004,000	952,953,279	(40,839,721)	(38,503,721)	(25,179,721)	(17,050,721)
NET RECEIPTS									
Sales and Use	1,536,422,000	1,580,000,000	1,560,000,000	1,560,000,000	1,535,419,516	(1,002,484)	(44,580,484)	(24,580,484)	(24,580,484)
Individual Income	2,207,703,000	2,165,000,000	2,175,000,000	2,190,000,000	2,205,463,903	(2,239,097)	40,463,903	30,463,903	15,463,903
Corporate Income	263,000,000	325,000,000	347,000,000	345,000,000	346,477,378	83,477,378	21,477,378	(522,622)	1,477,378
Miscellaneous	213,375,000	212,000,000	201,000,000	200,000,000	217,738,529	4,363,529	5,738,529	16,738,529	17,738,529
Total Net Receipts	4,220,500,000	4,282,000,000	4,283,000,000	4,295,000,000	4,305,099,326	84,599,326	23,099,326	22,099,326	10,099,326
ADJUSTED GROWTH									
Sales/Use	4.1%	6.8%	5.6%	5.5%	2.5%	na	na	na	na
Ind Income	8.4%	6.4%	6.8%	7.6%	8.3%	na	na	na	na
Corp Income	-11.7%	7.3%	14.0%	13.4%	13.8%	na	na	na	na
Misc Receipts	-0.7%	-1.5%	-7.8%	-8.4%	1.1%	na	na	na	na
Total GF Revenues	4.8%	6.3%	6.3%	6.6%	6.2%	na	na	na	na

	Cert July 2014 FY2014-15	Oct 2014 FY2014-15	Feb 2015 FY2014-15	April 2015 FY2014-15	Actual FY2014-15	\$ Variance Cert July 2014	\$ Variance Oct 2014	\$ Variance Feb 2015	\$ Variance April 2015
TOTAL BY MONTH									
July	241,911,000	241,018,000	241,018,000	241,018,000	241,017,843	(893,157)	(157)	(157)	(157)
August	351,453,000	354,034,000	354,034,000	354,034,000	354,034,166	2,581,166	166	166	166
September	427,835,000	463,294,000	463,294,000	463,294,000	463,293,528	35,458,528	(472)	(472)	(472)
October	244,314,000	222,458,000	222,457,000	222,457,000	222,458,009	(21,855,991)	9	1,009	1,009
November	334,624,000	338,845,000	342,333,000	342,333,000	342,333,466	7,709,466	3,488,466	466	466
December	368,004,000	382,110,000	400,122,000	400,122,000	400,121,553	32,117,553	18,011,553	(447)	(447)
January	368,453,000	370,263,000	348,078,000	348,078,000	348,079,334	(20,373,666)	(22,183,666)	1,334	1,334
February	259,602,000	266,371,000	284,440,000	284,440,000	284,440,044	24,838,044	18,069,044	44	44
March	341,724,000	354,710,000	345,179,000	346,283,000	346,282,987	4,558,987	(8,427,013)	1,103,987	(13)
April	512,286,000	506,978,000	502,766,000	534,565,000	534,565,192	22,279,192	27,587,192	31,799,192	192
May	352,120,000	350,783,000	346,003,000	335,256,000	348,011,694	(4,108,306)	(2,771,306)	2,008,694	12,755,694
June	418,174,000	431,136,000	433,276,000	423,120,000	420,461,510	2,287,510	(10,674,490)	(12,814,490)	(2,658,490)
Total GF Revenues	4,220,500,000	4,282,000,000	4,283,000,000	4,295,000,000	4,305,099,326	84,599,326	23,099,326	22,099,326	10,099,326

Table 2 Actual Receipts and Adjusted Growth

	Actual FY2009-10	Actual FY2010-11	Actual FY2011-12	Actual FY2012-13	Actual FY2013-14	Actual FY2014-15
<u>GROSS RECEIPTS</u>						
Sales and Use	1,673,430,858	1,762,331,823	1,853,017,046	1,944,467,714	2,040,600,845	2,077,969,057
Individual Income	1,887,767,904	2,071,513,011	2,179,319,782	2,492,601,926	2,418,603,017	2,585,182,066
Corporate Income	216,591,188	220,565,785	262,094,785	318,145,131	338,342,475	377,110,289
Miscellaneous	245,780,857	236,766,768	201,889,679	200,072,864	225,324,574	217,791,194
Total Gross Receipts	4,023,570,807	4,291,177,387	4,496,321,292	4,955,287,635	5,022,870,911	5,258,052,606
<u>REFUNDS & CREDITS</u>						
City Sales Tax	301,301,154	307,421,792	329,186,366	339,311,365	359,731,013	373,538,071
State Sales and Use	82,332,827	82,125,998	86,921,307	130,213,708	96,256,946	86,725,977
Sales tax to Highway Funds	0	0	0	0	59,819,123	73,742,441
CSI Turnback	0	0	0	0	0	8,543,052
Individual Income	372,937,790	336,304,411	356,435,528	390,689,885	35,784,413	379,718,163
Corporate Income	62,259,051	65,620,819	27,828,548	42,582,141	31,751,448	30,632,911
Miscellaneous	60,312	49,275	60,763	131,926	60,028	52,664
Total Refunds/Credits	818,891,134	791,522,296	800,432,512	902,929,025	905,462,679	952,953,279
<u>NET RECEIPTS</u>						
Sales and Use	1,289,796,877	1,372,784,033	1,436,909,373	1,474,942,641	1,524,793,763	1,535,419,516
Individual Income	1,514,830,114	1,735,208,600	1,822,884,254	2,101,912,041	2,060,758,896	2,205,463,903
Corporate Income	154,332,137	154,944,966	234,266,237	275,562,990	306,591,027	346,477,378
Miscellaneous	245,720,545	236,717,493	201,828,916	199,940,938	225,264,546	217,738,529
Total Net Receipts	3,204,679,673	3,499,655,092	3,695,888,780	4,052,358,610	4,117,408,232	4,305,099,326
<u>ADJUSTED GROWTH</u>						
Sales/Use	-1.9%	5.7%	4.9%	5.2%	5.1%	2.5%
Ind Income	-5.4%	13.8%	5.0%	8.6%	3.0%	8.3%
Corp Income	-11.4%	3.9%	30.9%	9.0%	11.0%	13.8%
Misc Receipts	-12.2%	3.0%	-7.4%	6.1%	2.6%	1.1%
Total GF Revenues	-4.8%	9.4%	5.9%	7.2%	4.4%	6.2%

	Actual FY2009-10	Actual FY2010-11	Actual FY2011-12	Actual FY2012-13	Actual FY2013-14	Actual FY2014-15
<u>TOTAL BY MONTH</u>						
July	197,807,238	179,591,989	200,410,336	221,623,977	231,361,095	241,017,843
August	304,050,368	321,595,200	328,095,462	334,866,833	341,465,610	354,034,166
September	317,100,761	340,792,100	352,198,248	393,941,658	426,483,667	463,293,528
October	193,978,281	191,162,664	222,675,821	228,084,028	230,928,322	222,458,009
November	278,753,945	294,317,381	304,541,302	315,022,112	327,105,697	342,333,466
December	288,185,977	297,308,646	315,752,839	363,239,068	348,464,354	400,121,553
January	280,299,870	289,870,265	332,895,309	350,993,211	363,606,001	348,079,334
February	201,042,477	213,827,526	227,923,183	216,047,077	258,546,817	284,440,044
March	232,572,326	267,811,221	294,885,808	273,456,199	350,418,319	346,282,987
April	304,151,569	404,453,871	427,308,325	625,588,045	482,691,430	534,565,192
May	297,886,848	340,367,174	337,561,396	339,136,046	332,936,184	348,011,694
June	308,850,012	358,557,057	351,640,752	390,360,355	423,400,735	420,461,510
Total GF Revenues	3,204,679,673	3,499,655,092	3,695,888,781	4,052,358,610	4,117,408,232	4,305,099,326

Table 3 Chronology of FY2015-16 Revenue Forecasts

	FY2013-14 Revenue Forecasts (Thousands of \$)					Change Due to:			
	Sales/Use	Individual	Corporate	Misc	Total	Forecast	Fed Law	Bills	Total
Board Est-October 2012	1,550,000	2,095,000	270,000	165,000	4,080,000				
Board Est-February 2013	1,547,000	2,120,000	280,000	160,000	4,107,000	289	26,711	0	27,000
Board Est-April 2013	1,560,000	2,120,000	285,000	173,000	4,138,000	31,000	0	0	31,000
Sine Die-2013 Session	1,552,513	2,109,989	285,000	209,827	4,157,329	0	0	19,329	19,329
Board Est-October 2013	1,560,000	2,152,000	263,000	200,000	4,175,000	17,671	0	0	17,671
Board Est-February 2014	1,560,000	2,216,000	263,000	199,000	4,238,000	63,000	0	0	63,000
Sine Die-2014 Session	1,536,422	2,207,703	263,000	213,375	4,220,500	50	0	(17,550)	(17,500)
Board Est-October 2014	1,580,000	2,165,000	325,000	212,000	4,282,000	61,500	0	0	61,500
Board Est-February 2015	1,560,000	2,175,000	347,000	201,000	4,283,000	1,000	0	0	1,000
Board Est-April 2015	1,560,000	2,190,000	345,000	200,000	4,295,000	12,000	0	0	12,000
Sine Die-2015 Session	1,560,000	2,190,000	345,000	200,000	4,295,000	0	0	0	0
Actual Receipts FY2014-15	1,535,420	2,205,464	346,477	217,739	4,305,099	10,099	0	0	10,099
Change from first NEFAB forecast to actual	(14,580)	110,464	76,477	52,739	225,099	196,609	26,711	1,779	225,099

Chronology of FY2014-15 Forecasts
Adjusted for legislation and federal tax changes

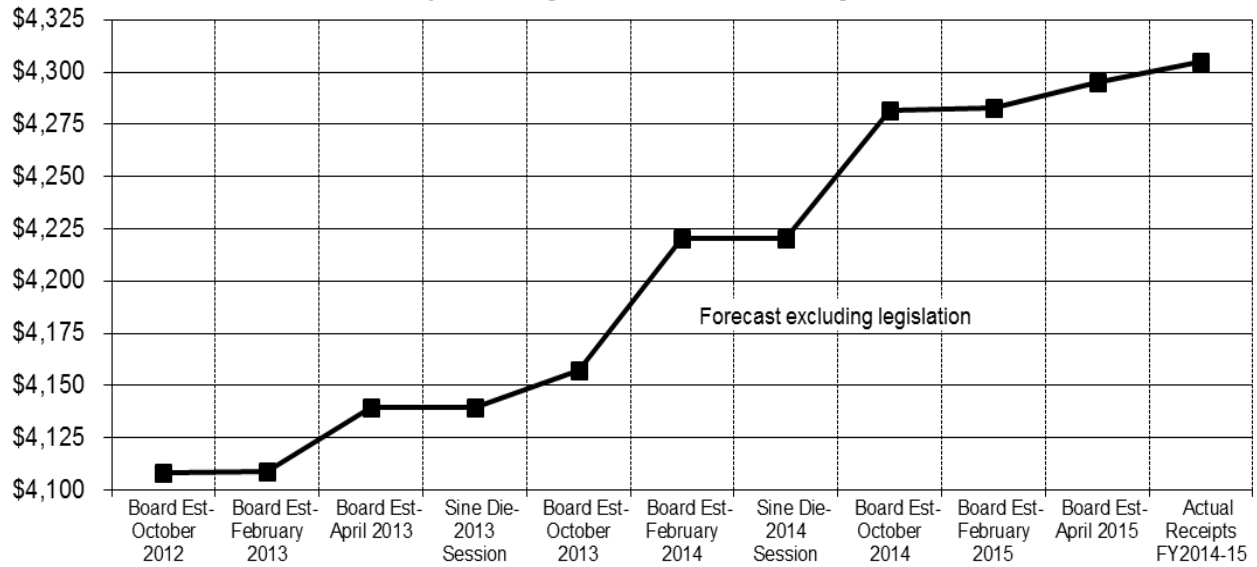
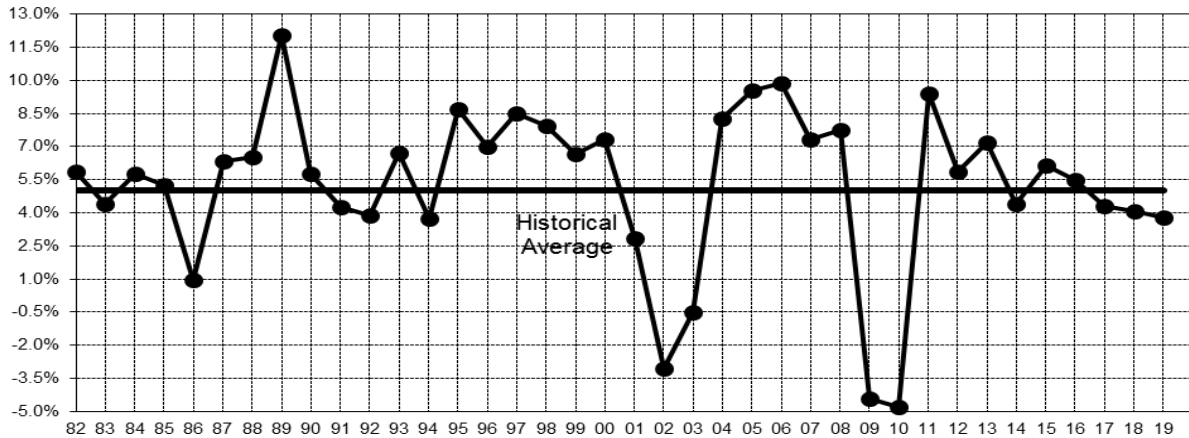


Table 4 Historical and Projected Revenues

	Sales	Individual	Corporate	Miscellaneous	Total	Adjusted Growth
FY 1994-95 Actual	683,852,397	746,717,579	123,923,674	150,995,891	1,705,489,541	8.7%
FY 1995-96 Actual	711,008,684	846,550,249	126,801,468	152,380,385	1,836,740,786	7.0%
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 NEFAB (April+bills)	1,614,273,000	2,298,471,000	329,124,000	231,988,000	4,473,856,000	5.3%
FY 2016-17 NEFAB (April+bills)	1,683,200,000	2,407,937,000	329,072,000	225,232,000	4,645,441,000	4.3%
FY 2017-18 LFO	1,753,147,000	2,527,645,000	318,988,000	190,722,000	4,790,502,000	4.1%
FY 2018-19 LFO	1,813,091,000	2,647,610,000	313,988,000	173,722,000	4,948,411,000	3.8%
AVERAGE GROWTH (adjusted)						
Five Yr Financial Status (FY15 to FY19 Status)	4.1%	6.0%	1.4%	0.9%	4.75%	
Above Average Years (23)	5.6%	9.1%	11.8%	3.5%	7.3%	
Below Average Years (11)	1.5%	2.1%	-5.5%	0.2%	1.1%	
Historical Average (34 yrs)	4.3%	6.7%	5.0%	0.9%	5.0%	

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 Est	727,835,426	0	84,599,532	0	(83,819,751)	0	728,615,207	16.3%
FY2016-17 Est	728,615,207	0	0	0	0	0	728,615,207	15.7%
FY2017-18 Est	728,615,207	0	0	0	0	0	728,615,207	15.2%
FY2018-19 Est	728,615,207	0	0	0	(20,436,714)	0	708,178,493	14.3%

(1) Automatic transfers reflect the prior year variance from forecast. For example the \$285.3 million transfer in FY13-14 actually reflects FY12-13 "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 – FY16/FY17 Following Biennium

For the “following biennium” (FY2017-18 and FY2018-19), 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 2015 budget actions)

<i>Dollar Changes from FY16 Base Year</i>	Annual % Change			Projected Increases	
	FY18	FY19	2 Yr Avg	FY2017-18	FY2018-19
FY2013-14 Base Appropriation				4,397,255,680	4,397,255,680
Aid to K-12 Schools (TEEOSA GF only)	4.8%	5.3%	5.0%	45,626,027	98,560,752
Special Education	2.5%	2.5%	2.5%	5,614,749	11,369,867
Community Colleges	3.5%	3.5%	3.5%	3,490,067	7,102,285
Homestead Exemption	3.0%	3.0%	3.0%	2,139,450	4,343,084
Aid to ESU's	2.5%	2.5%	2.5%	351,294	711,370
Medicaid	5.5%	5.5%	5.5%	47,399,051	97,405,050
Public Assistance	6.0%	6.0%	6.0%	6,785,644	13,978,427
Childrens Health Insurance (CHIP)	9.6%	9.3%	9.5%	640,572	1,316,375
Child Welfare Aid	6.0%	6.0%	6.0%	7,981,697	15,643,203
Developmental Disability aid	4.0%	4.0%	4.0%	6,026,436	12,293,930
Behavioral Health aid	2.5%	2.5%	2.5%	1,851,119	3,748,516
Employee Salaries	2.5%	2.5%	2.5%	26,259,026	53,174,527
Employee Health Insurance	10.0%	10.0%	10.0%	16,432,488	34,508,225
Operations increase	2.0%	2.0%	2.0%	5,790,778	11,697,373
Justice Reinvestment Act (LB605-2015)	--	--	--	4,536,736	7,850,305
Inmate per diem costs	3.0%	3.0%	3.0%	1,866,698	3,789,397
Juvenile Services reform	5.5%	5.0%	5.2%	703,176	1,427,447
Corrections, temporary housing, county jails	--	--	--	0	0
Construction	--	--	reaffirm only	9,529,333	8,727,526
All Other			na	181,528	56,434
Total General Fund Increases (Biennial Basis)	4.4%	4.2%	4.3%	193,205,869	387,704,092
Projected Appropriation per Financial Status				4,590,461,549	4,784,959,772

About 25% 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 4.8% in FY18 and 5.3% in FY19

Another 25% of the projected increase is in Medicaid with an average growth of 5.5% per year. This reflects projected growth of 3.0% per year for population client eligibility and utilization and 2.5% per year for provider rates. Also included in this number are annualized impacts of the Affordable Care Act (ACA) as it phases in to full implementation..

AID TO LOCAL GOVERNMENTS

State Aid to Schools (TEEOSA) The estimates for FY18 and FY19 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. They are based on the existing TEEOSA aid formula. The estimates reflect a growth in overall school aid of 4.8% in FY18 and 5.3% in FY19.

Special Education: Increases for FY18 and FY19 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

Medicaid For the following biennium, the average growth is 5.5% per year. This reflects projected growth of 3.0% per year for population client eligibility and utilization and 2.5% per year for provider rates. This estimate also assumes no change from the FFY16 FMAP of 51.16%.

Public Assistance and Child Welfare A basic growth rate of 6.0% per year is utilized for the various Public Assistance programs for the following biennium. This reflects projected growth of 3% per year for population client eligibility and utilization and 2.5% per year for provider rates, and 6% for child care rates.

Children's Health Insurance (CHIP) For the following biennium, a 9% per year increase is used which is the same as Medicaid. However the large increase reflects the fact that the General Fund base is very low due to the expanded federal match rate (23%) from the Affordable Care Act and General Funds pick up the percent increase in the fixed \$5 million allocated from the Health Care Cash Fund.

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 and 1.5% for clients transitioning from K-12 programs. As this projected budget assumes no expanded programs, nothing is assumed for funding of the waiting list.

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

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.

Employee Health Insurance For planning purposes, a 10% per year increase in health insurance is included for the following biennium. Because rates have been flat for the past several years due to coverage and program changes and drawing down fund balances, this higher growth is utilized to anticipate a potential hike in rates.

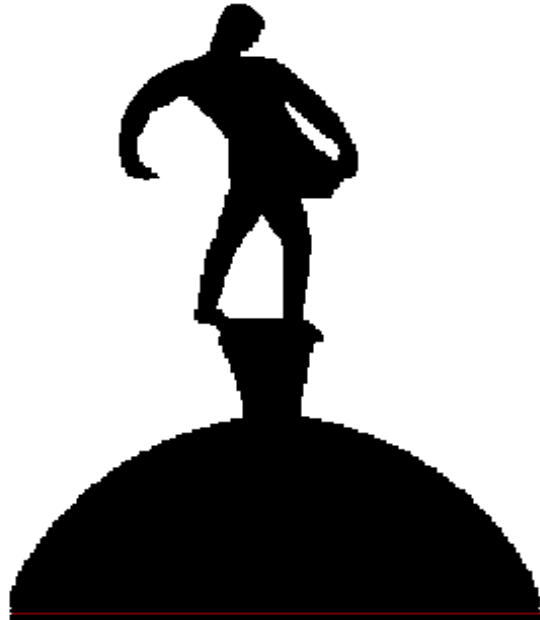
Operations Inflation Included in the projected status is a general 2% increase in agency non-personnel operating costs. Although not provided as an across the board increase, this amount historically covers increases in utility costs at state and higher education facilities as well as food and other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

Inmate Per Diem Costs While some costs at the Dept of Correctional Services such as staffing are "fixed" within a range of inmate population, 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 inflationary costs and an increase in the number of inmates.

Defined Benefit Retirement Plans The preliminary budget assumes a slight reduction additional state contribution amounts for the Judges and Patrol plans offsets an increase in the 2% of pay contribution in the school plan. This is based on the Fall 2014 actuarial reports.

Capital Construction General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on the proposed FY16/FY17 biennial budget. These are dollar amounts needed to complete funding of previously approved projects. The \$9 million increase reflects new funding for the State Capitol HVAC system replacement. A large appropriation in FY14-15 carried forward to cover costs for the current biennium.

Tax Rate Review Committee



November 18, 2015

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 Bob Krist
Senator Galen Hadley
Senator Mike Gloor
Leonard J. Sloup

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.

General Fund Financial Status

Table 1 shown below includes the current projected General Fund Financial Status including, for planning purposes, an estimated financial status for the following biennium. Assumptions for construction of the status and estimates for the following biennium are discussed individually later in this report.

Table 1 Projected General Fund Financial Status

	Actual FY2014-15	Biennial Budget FY2015-16 FY2016-17		Following Biennium FY2017-18 FY2018-19	
1 BEGINNING BALANCE					
2 Beginning Cash Balance	673,683,437	732,273,130	214,191,433	157,117,682	115,128,016
3 Cash Reserve transfers-automatic	(96,721,232)	(84,599,532)	0	0	0
4 Carryover obligations from FY15	0	(343,888,145)	0	0	0
6 Allocation for potential deficits	0	0	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	576,962,205	303,785,453	209,191,433	152,117,682	110,128,016
8 REVENUES					
9 Net Receipts (Oct1 2015 NEFAB+hist avg)	4,306,364,121	4,403,000,000	4,562,000,000	4,742,502,000	4,948,411,000
10 General Fund transfers-out	(188,350,000)	(217,600,000)	(217,100,000)	(216,300,000)	(216,300,000)
11 General Fund transfers-in	in forecast	0	0	0	0
12 Cash Reserve transfers (current law)	67,701,112	0	0	0	0
13 2016 Cash Reserve transfers	0	0	0	0	0
14 2016 General Fund transfers-out	0	0	0	0	0
15 2016 General Fund transfers-in	0	0	0	0	0
16 2016 Revenue Bills	0	0	0	0	0
17 General Fund Net Revenues	4,185,715,233	4,185,400,000	4,344,900,000	4,526,202,000	4,732,111,000
18 APPROPRIATIONS					
19 Appropriations (2015 Session)	4,030,404,308	4,271,803,869	4,397,255,680	4,397,255,680	4,397,255,680
20 Projected budget increase, following biennium	--	--	--	193,205,869	387,704,092
21 2016 Midbiennium Budget Adjustments (requests)		3,190,151	18,978,114	12,348,464	12,348,464
22 TEEOSA School aid revisions	0	0	(19,260,043)	(39,618,347)	(44,246,555)
23 2016 State Claims	0	0	0	0	0
24 2016 "A" Bills	0	0	0	0	0
25 General Fund Appropriations	4,030,404,308	4,274,994,020	4,396,973,751	4,563,191,666	4,753,061,681
26 ENDING BALANCE					
27 Dollar ending balance (per Financial Status)	732,273,130	214,191,433	157,117,682	115,128,016	89,177,335.1
28 Dollar ending balance (at Minimum Reserve)			267,319,619		274,235,845.1
29 Excess (shortfall) from Minimum Reserve			(110,201,937)		(185,058,510)
30 Biennial Reserve (%)			1.7%		1.0%
<u>General Fund Appropriations</u>					
31 Annual % Change - Appropriations (w/o deficits)	7.0%	4.0%	2.9%	3.8%	4.2%
32 Two Year Average	6.3%	--	3.5%	--	4.0%
<u>General Fund Revenues</u>					
33 Est. Revenue Growth (rate/base adjusted)	6.2%	3.6%	4.1%	4.9%	4.8%
34 Two Year Average	5.3%	--	3.9%	--	4.9%
35 Five Year Average	6.6%	--	5.2%	--	4.7%
36 On-Going Revenues vs Appropriations	87,609,813	(89,594,020)	(52,073,751)	(36,989,666)	(20,950,681)
CASH RESERVE FUND					
	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Projected Unobligated Ending Balance	727,835,426	728,615,207	728,615,207	728,615,207	708,178,493

Changes to the Financial Status since July

The General Fund Financial Status for the FY16/FY17 biennium has actually declined since the July meeting of the Tax Rate Review Committee as shown below.

Table 2 Chronology of the Financial Status

Millions of Dollars	FY 2014-15	FY 2015-16	FY 2016-17	3 Yr Total	FY 2017-18	FY 2018-19	5 Yr Total
July 2015 Tax Rate Review Committee				17.2			(69.5)
NEFAB Revenue Forecasts (revised Oct 2015)	na	(70.9)	(83.4)	(154.3)	(48.0)	0.0	(202.3)
CRF Transfer (FY16 forecast above certified)	na	0.0	0.0	0.0	0.0	0.0	0.0
Change in Minimum Reserve	na	0.0	4.5	4.5	0.0	1.4	5.9
October 2015 NEFAB Revised Revenue Forecast				(132.6)			(266.0)
FY14 & FY15 appropriation lapse above July est.	na	20.3	0.0	20.3	0.0	0.0	20.3
Exclude allocation for deficits	na	5.0	0.0	5.0	0.0	0.0	5.0
2016 Midbiennium Budget Requests (original)	na	(3.2)	(19.0)	(22.2)	(12.3)	(12.3)	(46.9)
TEEOSA School Aid revisions (Oct 2015 Meeting)	na	0.0	19.3	19.3	39.6	44.2	103.1
Change in Minimum Reserve	na	0.0	0.0	0.0	0.0	(0.7)	(0.7)
November 2015 Tax Rate Review Committee				(110.2)			(185.1)

Revenue Forecasts

The FY2015-16 and FY2016-17 forecasts were revised by the Nebraska Economic Forecast Advisory Board on October 30, 2015. At that meeting, revenue forecasts were reduced by a total of \$154.3 million; \$70.9 million in FY15-16 and \$83.4 million in FY16-17. Rate and base adjusted revenue growth for the two year period is an average 3.9%.

Actual FY15 lapsed appropriations

In the July 2015 projected financial status it was estimated conservatively that \$25 million of unexpended General Fund appropriations would expire or lapse. Actual numbers for lapsed appropriations would not be available until the encumbrance process was completed in October. The final calculation of FY15 reappropriations and encumbrances resulted in expired (lapsed) appropriations of \$45 million versus the \$25 million estimate with a like increase in the unobligated beginning balance for FY15-16.

Updated TEEOSA State Aid Estimate

Section 79-1031 requires the Dept. of Education with the assistance of the property tax administrator, Legislative Fiscal Analyst, and DAS-Budget Division to make an estimate of the funding needs for TEEOSA for the next year. At a joint meeting at the end of October, the estimate for total TEEOSA aid for FY2016-17 was reduced by \$16.5 million. With a \$2.7 million increase in the estimate of Insurance Premium Tax, General Fund amounts needed decline by \$19.3 million. About 85% of the reduction in aid is attributed to actual certified valuations (10.4% growth) versus

the October 2014 estimates of 9%. There was no new information to warrant a change in the previous estimate of spending growth. These estimates will be further refined in mid-December when the FY15 Annual Financial Reports (AFR) from schools are compiled and available. At that point many key calculation components in the TEEOSA formula will be known numbers not just estimates. This includes school spending and the amount of other school receipts. Note that under this estimate, total TEEOSA aid for FY16-17 would be about 1% below the FY15-16 level.

Although not required by statute, at that same meeting estimates for the two “out years” were considered. For FY2017-18, lower estimated growth in spending and the higher base property valuations combined for a significant reduction in estimated aid. Projected school spending growth decreased from 4.0% to 3.35% and reflects the budget to budget growth as compiled for FY15-16. Property valuation growth increased from 4% to 5.4% based on preliminary input from county assessors to the Property Assessment division of the state Dept. of Revenue (DPAT). Overall TEEOSA aid is projected to increase by 2.4% in FY18 and 5.3% in FY19.

2016 Session Budget Adjustment Requests

Other than the updated TEEOSA numbers, the financial status as shown here includes agency requests for mid-biennium budget adjustments. To date, a two year total of \$22 million of budget requests have been submitted. Although included here, these requests will be subject to the budget review and approval process during the 2016 Session. Of the requested \$22 million, \$18.1 million (82%) is from the Dept. of Correctional Services for a variety of items.

There will also likely be other requests that will subsequently be submitted for things such as Homestead Exemption and defined benefit retirement plans.

<u>2016 General Fund Requests</u>	<u>FY2015-16</u>	<u>FY2016-17</u>	<u>2 Yr Total</u>
Corrections-Continuation of inmate county jail program	479,892	4,607,147	5,087,039
Corrections-Operations costs and equipment	1,774,997	2,939,925	4,714,922
Corrections-Inmate health service costs	2,058,700	2,525,012	4,583,712
Corrections-Inmate per diem costs (non-medical)	1,878,000	2,278,000	4,156,000
Corrections-Tecumseh, repair and restoration	1,192,215	2,022,503	3,214,718
DHHS-Managed care enrollment broker	0	3,445,925	3,445,925
Education-NeSA-English language arts, text dependent analysis	0	2,430,651	2,430,651
Corrections-Utility costs	1,161,507	1,207,968	2,369,475
DHHS-Court ordered wait list, Lincoln Regional Center	530,616	1,061,232	1,591,848
DHHS-State Ward Permanency Pilot Project Cost	1,415,928	0	1,415,928
Attorney Gen-Ongoing water litigation costs	507,900	721,500	1,229,400
State Colleges-Fair Labor Standards (FLSA) changes	295,063	590,125	885,188
DHHS-AccessNebraska call center funding	0	600,000	600,000
Corrections-Program treatment costs, Parolees	0	600,000	600,000
Education-ADVISED Student Data System - tech support	0	550,000	550,000
Education-Implementation costs, LB276 MIPS expansion	177,124	201,267	378,391
Education-Coordinated School Health (CSH) initiative	55,502	56,234	111,736
Corrections-Vacancy savings	(4,415,429)	(2,207,715)	(6,623,144)
DHHS-Higher FFY2017 FMAP	0	(4,674,690)	(4,674,690)
Education-TEEOSA, insurance premium tax adjustment	(4,111,964)	0	(4,111,964)
All Other (net)	190,100	23,030	213,130
Midbiennium Budget Requests – General Fund	3,190,151	18,978,114	22,168,265

Cash Reserve Fund

Table 3 Cash Reserve Fund Status

	Actual FY2014-15	Estimated FY2015-16	Estimated FY2016-17	Estimated FY2017-18	Estimated FY2018-19
Beginning Balance	719,065,306	684,819,968	728,615,207	728,615,207	728,615,207
Excess of certified forecasts	96,721,233	84,599,532	0	0	0
To General 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 To Gen Fund (IV-E disallowance)	(17,201,112)	0	0	0	0
2015 To Republican River Litigation Fund	(5,500,000)	0	0	0	0
2015 To Oral Health Services & Training	0	(8,000,000)	0	0	0
2015 To NCCF (Capitol HVAC)	0	(7,804,292)	0	0	(7,160,412)
2015 To NCCF (Capitol HVAC) Future	0	0	0	0	(13,276,302)
2015 To NCCF (UNMC Global Learning)	0	(25,000,000)	0	0	0
Ending Balance	684,819,968	728,615,207	728,615,207	728,615,207	708,178,493

When created, the initial purpose of Cash Reserve Fund (CRF) was to set aside money as a “safety net” for the General Fund, sustaining the ability of the General Fund to pay bills when balances would otherwise be insufficient for day to day cash flow.

In addition to cash flow another major purpose of the CRF was added later; protection against forecast errors and periods of low year over year revenue growth. 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 (Table 4). Over the 28 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.

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.

Now that the Cash Reserve Fund has been accumulated near desirable targets, a key question is when to start using it for the purpose it was created and in what amount. There are many variable including the degree to which forecasts decline, how long the forecast declines last, and other options that might be available to help alleviate a budget shortfall in the event one occurs.

Table 4 Variance from Revenue Projections

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	4,117.4	96.7		2.4%
FY2014-15	4,220.5	4,305.1	84.6		2.0%
FY2015-16 est	4,473.9	?	?	?	?
FY2016-17 est	4,645.4	?	?	?	?
FY2017-18 est	na	?	?	?	?
FY2018-19 est	na	?	?	?	?
Avg Variance				-4.4%	4.7%

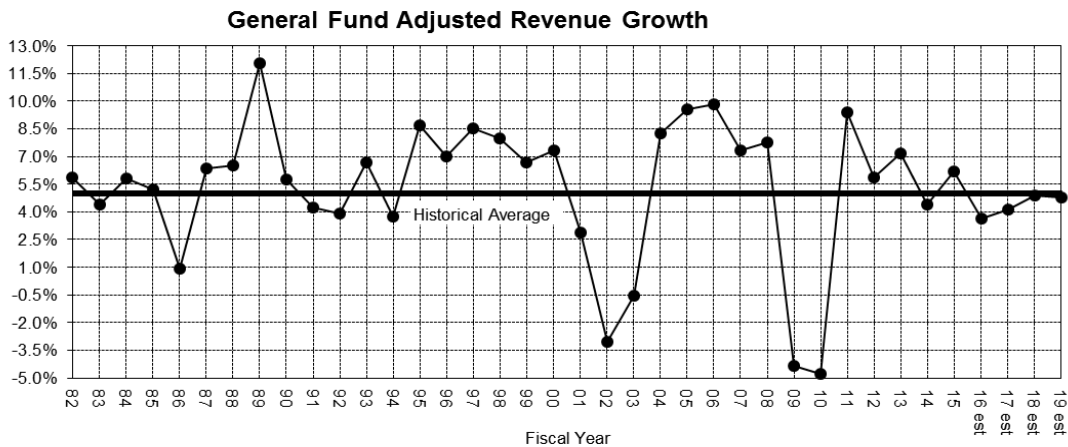
General Fund Revenues

Revenue estimates for FY2015-16 and FY2016-17 are the October 2015 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). These forecasts yield a projected adjusted revenue growth of 3.6% in FY15-16 and 4.1% in FY16-17, an average growth of 3.9%. While this two year growth is below the 5% historical average, the average growth for the three prior three years was 5.9%.

For the following biennium or what's commonly referred to as the "out years", the preliminary estimates for FY2017-18 and FY2018-19 are prepared by the Legislative Fiscal Office (LFO) using the "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 (5.00%) less .25% which is the projected impact of indexing the tax brackets as enacted last session in LB987. Under this method, revenue growth for the two years would average 4.9%.

Table 5 - General Fund Revenue Forecasts

	Actual FY2014-15	NEFAB FY2015-16	NEFAB FY2016-17	LFO Prelim FY2017-18	LFO Prelim FY2018-19
Actual/Forecast					
Sales and Use Tax	1,535,419,516	1,565,000,000	1,620,000,000	1,708,147,000	1,793,091,000
Individual Income Tax	2,205,463,903	2,300,000,000	2,415,000,000	2,534,645,000	2,657,610,000
Corporate Income Tax	346,477,378	320,000,000	315,000,000	318,988,000	323,988,000
Miscellaneous receipts	217,738,529	218,000,000	212,000,000	180,722,000	173,722,000
Total General Fund Revenues	4,305,099,326	4,403,000,000	4,562,000,000	4,742,502,000	4,948,411,000
Adjusted Growth					
Sales and Use Tax	2.5%	4.4%	2.4%	5.1%	4.7%
Individual Income Tax	8.3%	5.3%	5.8%	5.7%	5.4%
Corporate Income Tax	13.8%	-5.8%	-0.3%	1.6%	1.5%
Miscellaneous receipts	1.1%	-5.7%	8.4%	-1.5%	3.4%
Total General Fund Revenues	6.2%	3.6%	4.1%	4.9%	4.8%
Two Yr Average	5.3%	--	3.9%	--	4.9%
Five Yr Average	6.6%	--	5.2%	--	4.73%



General Fund Appropriations

References to appropriations in this section do not reflect budget actions that might take place during the 2016 session including revised TEEOSA school aid estimates.

Enacted Budget – FY16/FY17 Current Biennium:

The appropriations for the current biennium are the amounts enacted during the 2015 legislative session and reflected a budget growth of 4.0% in FY15-16 and 2.9% in FY16-17.

Projected Budget – FY18/FY19 Following Biennium

For the “following biennium” (FY2017-18 and FY2018-19), 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 6 Projected Budget Increases-Following Biennium
(includes on-going impact of 2015 budget actions, excludes impact of any potential 2016 changes)

<i>Dollar Changes from FY16 Base Year</i>	Annual % Change			Projected Increases	
	FY18	FY19	2 Yr Avg	FY2017-18	FY2018-19
FY2016-17 Base Appropriation				4,397,255,680	4,397,255,680
TEEOSA School Aid (Sine Die 2015 estimate)	4.8%	5.3%	5.0%	45,626,027	98,560,752
Special Education	2.5%	2.5%	2.5%	5,614,749	11,369,867
Community Colleges	3.5%	3.5%	3.5%	3,490,067	7,102,285
Homestead Exemption	3.0%	3.0%	3.0%	2,139,450	4,343,084
Aid to ESU's	2.5%	2.5%	2.5%	351,294	711,370
Medicaid	5.5%	5.5%	5.5%	47,399,051	97,405,050
Public Assistance	6.0%	6.0%	6.0%	6,785,644	13,978,427
Children's Health Insurance (CHIP)	9.6%	9.3%	9.5%	640,572	1,316,375
Child Welfare Aid	6.0%	6.0%	6.0%	7,981,697	15,643,203
Developmental Disability aid	4.0%	4.0%	4.0%	6,026,436	12,293,930
Behavioral Health aid	2.5%	2.5%	2.5%	1,851,119	3,748,516
Employee Salaries	2.5%	2.5%	2.5%	26,259,026	53,174,527
Employee Health Insurance	10.0%	10.0%	10.0%	16,432,488	34,508,225
Operations increase	2.0%	2.0%	2.0%	5,790,778	11,697,373
Justice Reinvestment Act (LB605-2015)	--	--	--	4,536,736	7,850,305
Inmate per diem costs	3.0%	3.0%	3.0%	1,866,698	3,789,397
Juvenile Services reform	5.5%	5.0%	5.2%	703,176	1,427,447
Corrections, temporary housing, county jails	--	--	--	0	0
Construction	--	--	reaffirm only	9,529,333	8,727,526
All Other			na	181,528	56,434
Total General Fund Increases (Biennial Basis)	4.4%	4.2%	4.3%	193,205,869	387,704,092
Projected Appropriation per Financial Status				4,590,461,549	4,784,959,772

AID TO LOCAL GOVERNMENTS

TEEOSA State Aid to Schools (Sine Die 2015 estimate) - The numbers shown here for FY18 and FY19 are Legislative Fiscal Office estimates used at Sine Die 2015. They are derived based on the same methodology utilized for the fall meeting required under current law for the proposed biennial budget. They are based on the existing TEEOSA aid formula. The estimates reflect a growth in overall school aid of 4.8% in FY18 and 5.3% in FY19

Special Education - Increases for FY18 and FY19 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

Medicaid - For the following biennium, the average growth is 5.5% per year. This reflects projected growth of 3.0% per year for population client eligibility and utilization and 2.5% per year for provider rates. This estimate also assumes no change from the FFY16 FMAP of 51.16%.

Public Assistance and Child Welfare - A basic growth rate of 6.0% per year is utilized for the various Public Assistance programs for the following biennium. This reflects projected growth of 3% per year for population client eligibility and utilization and 2.5% per year for provider rates, and 6% for child care rates.

Children's Health Insurance (CHIP) - For the following biennium, a 9% per year increase is used. The large increase reflects a base growth of 5.5% (the same as Medicaid) plus additional General Funds to pick up the 5.5% percent increase in the fixed \$5 million amount allocated from the Health Care Cash Fund. The large percent growth but relatively modest dollar amount is due to the fact that the General Fund base is very low due to the expanded federal match rate (23%) from the Affordable Care Act and.

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 and 1.5% for clients transitioning from K-12 programs. As this projected budget assumes no expanded programs, nothing is assumed for funding of the waiting list.

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

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.

Employee Health Insurance - For planning purposes, a 10% per year increase in health insurance is included for the following biennium. Because rates have been flat for the past several years due to coverage and program changes and drawing down fund balances, this higher growth is utilized to anticipate a potential hike in rates.

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...

Inmate Per Diem Costs - While some costs at the Dept of Correctional Services such as staffing are "fixed" within a range of inmate population, 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 inflationary costs and an increase in the number of inmates.

Justice Reinvestment Act (LB605-2015) - In the 2015 session, the Legislature enacted LB 605 to begin addressing overcrowding in the correctional system. LB 605 expands the use of probation in lieu of incarceration, ensures that more people receive supervision upon release from prison, and bolsters parole supervision practices to reduce recidivism. Costs are projected to increase over the following two years as more offenders are applicable to the bill provisions.

<u>Estimated GF Costs – LB 605</u>	<u>FY2015-16</u>	<u>FY2016-17</u>	<u>FY2017-18</u>	<u>FY2018-19</u>
Probation (Field)	475,592	2,959,038	4,544,636	5,501,962
Probation (Reporting Centers)	769,373	1,785,628	2,521,759	2,997,807
Probation (Administration)	427,435	1,053,813	1,531,990	1,735,210
Probation (Offender Program Expenses)	664,500	3,721,740	5,162,351	6,411,390
Court Administration	308,328	422,651	718,870	1,146,806
Subtotal - Courts	2,645,228	9,942,870	14,479,606	17,793,175
Corrections (net)*	(882,182)	(5,603,284)	(5,603,284)	(5,603,284)
Crime Commission	0	600,109	600,109	600,109
Total General Funds	1,763,046	4,939,695	9,476,431	12,790,000

Defined Benefit Retirement Plans - The preliminary budget assumes a slight reduction additional state contribution amounts for the Judges and Patrol plans offsets an increase in the 2% of pay contribution in the school plan. This is based on the Fall 2014 actuarial reports.

Capital Construction - General Fund dollars included in the projected budget for the following biennium for capital construction reflect reaffirmations only based on the proposed FY16/FY17 biennial budget. These are dollar amounts needed to complete funding of previously approved projects. The \$9 million increase reflects new funding for the State Capitol HVAC system replacement. A large appropriation in FY14-15 carried forward to cover costs for the current biennium.