

# **Tax Rate Review Committee November 2016**



***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  
Tony Fulton**

**Prepared by the Legislative Fiscal Office  
November 16, 2016**

# Summary

This report includes a current projected General Fund Financial Status for the upcoming FY2017-18 and FY2018-19 Biennial Budget. This biennium had been shown as the “out years” in previous financial status. For planning purposes, this report also incorporates a new estimated financial status for the “out years” bringing in the FY2019-20 and FY2020-21 biennium. Assumptions for construction of the status for the upcoming biennium and estimates for the following biennium are discussed individually later in this report

These estimates are based on (1) current law, (2) October Forecast Board projections for FY17, FY18 and FY19, (3) revenue projections for the following biennium using the “historical average” methodology, and (4) an initial pre-session assessment of General Fund appropriations under current law using both agency requests and historical trends.

## Projected Shortfall

The projected financial status shows an ending balance \$895.2 million ***below*** the minimum reserve for the upcoming FY17-18 / FY18-19 biennial budget. In the absence of any budget actions to rebalance the FY17/FY19 biennium, this projected “shortfall” grows to \$1.2 billion in the following biennium, FY19-20 / FY20-21 biennium.

This projected shortfall is the cumulative impact of a large negative imbalance between on-going revenues and appropriations in FY17, FY18 and FY19. This large negative gap was started when FY16 actual receipts were \$120 million below the last forecast and resulted in a revenue growth of only .3%. This negative gap continued to grow into the next three years with the October forecasts which yielded below average revenue growth coming after the very low growth in FY16.

One bit of good news is the negative structural operating gap shrinks significantly in the “out years” when the historical average methodology yields revenue growth of roughly 6% per year and the projected spending growth averages 4%.

## Revenue Growth

Revenue growth (adjusted for rate and base changes) continues to be below average for the upcoming biennium. Revenue estimates for FY2016-17, FY2017-18, and FY2018-19 are the October 2016 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by these current forecasts is 3.4% in FY16-17, 4.0% in FY17-18 and 4.6% in FY18-19. Note that the 3.4% growth in FY16-17 comes after a 0.3% growth in FY2015-16,

For the “following biennium”, revenue growth is calculated at 6% per year using the historical average methodology. The target growth is the historical average of 4.9% but adjusted down to 4.7% to exclude growth that is now negated by indexing of the income tax brackets. These calculated amounts are at the low end of preliminary, unofficial estimates prepared by the Nebraska Dept. of Revenue (NDR) and Legislative Fiscal Office (LFO) using IHS Economics and Moody’s forecasting information.

## Spending Growth

For purposes of this report, projected spending growth is not derived based on what results in a balanced budget but is our best estimate of the costs of maintaining existing programs and services. These estimates reflect a basic continuation budget, including only those increases related either to entitlement programs, legislative intent, or costs to implement previously enacted legislative actions

and reflect existing statute and policies. This then provides a benchmark from which policy makers can examine the changes to statute and policy choices that are necessary to then actually balance the budget.

In many cases, the projected increases for the upcoming biennial budget (FY2017-18 and FY2018-19) reflect agency requests for the items shown while estimated increases for the following biennium (FY2019-20 and FY2020-21) are based on historical trends. No new or expanded programs are included. *In many cases, rationales for the FY18 and FY19 requests are incomplete as these requests are currently under analysis.*

Overall the projected budget results in a budget growth of 4.5% in FY2017-18 and 3.6% in FY2018-19, a 4.1% two year average. To some extent, this reflects relatively modest growth in Medicaid and other DHHS aid programs which collectively average a 4.5% increase per year over the biennium. The large increase for defined benefit retirement programs in FY18 accounts for the equivalent of .5% of the higher first year growth in appropriations.

*With respect to Correctional Services, this projected budget includes no new monies related to prison population and reform other than a reallocation of funding for housing inmates in county jails which was set to expire at the end of this biennium. When funded, this program was considered one-time as longer term solutions were to be addressed as part of the prison population reform.*

	Projected Increase to FY17 Base Year	FY2017-18	FY2018-19	Two Yr total	% of Total
1	TEEOSA Aid to Schools (General Funds only)	50,004,326	108,502,039	158,506,365	28.0%
2	Medicaid (other than FMAP)	50,857,871	88,689,157	139,547,028	24.6%
3	General Increase (University+Colleges)	25,638,375	52,915,513	78,553,888	13.9%
4	Salaries+Health Insurance (Agencies)	18,182,962	37,173,379	55,356,341	9.8%
5	Retirement, K-12 School / Judges / Patrol	16,753,696	18,069,657	34,823,353	6.2%
6	Child Welfare aid (other than FMAP)	11,654,744	14,852,921	26,507,665	4.7%
7	Capital Construction (reaffirmations only)	9,529,333	8,727,526	18,256,859	3.2%
8	Developmental Disability aid (other than FMAP)	5,765,976	11,460,861	17,226,837	3.0%
9	Special Education	5,551,578	11,241,945	16,793,523	3.0%
10	Public Assistance (other than FMAP)	7,828,059	8,549,009	16,377,068	2.9%
11	LB 605 Justice Reinvestment Act (Courts)	4,420,235	7,412,851	11,833,086	2.1%
12	Community Colleges	3,528,991	7,181,496	10,710,487	1.9%
13	Staffing, programs, equipment (Corrections)	4,607,147	4,607,147	9,214,294	1.6%
14	Homestead Exemption	2,285,000	4,385,000	6,670,000	1.2%
15	Specific Items (University)	3,000,000	3,000,000	6,000,000	1.1%
16	Behavioral health aid (other than FMAP)	1,676,895	3,187,329	4,864,224	0.9%
17	Juvenile probation costs under LB561 (Courts)	703,176	1,427,447	2,130,623	0.4%
18	Childrens Health Insurance (other than FMAP & ACA)	452,867	846,752	1,299,619	0.2%
19	Operating inflation+DAS rates (State Agencies)	474,302	588,756	1,063,058	0.2%
20	Aid to ESU's	351,294	711,370	1,062,664	0.2%
21	Federal Medicaid Match rate (op & aid)	(14,708,604)	(18,484,328)	(33,192,932)	-5.9%
22	Use of county jail housing (Corrections)	(4,607,147)	(4,607,147)	(9,214,294)	-1.6%
23	Personal Property Tax Relief Act	(3,600,000)	(2,600,000)	(6,200,000)	-1.1%
24	Interstate Water Litigation (Attorney General)	(921,500)	(921,500)	(1,843,000)	-0.3%
25	Aging programs, annualize LB320	0	(603,912)	(603,912)	-0.1%
26	All Other	275,893	169,278	445,171	0.1%
27	Total	199,705,469	366,482,546	566,188,015	100.0%

## **Cash Reserve Fund**

A bright spot in the financial status is the fact that the unobligated ending balance in the Cash Reserve Fund is projected at \$617 million.

A key question during the upcoming biennial budget process is what balance should be retained in the Cash Reserve Fund and how much can or should be utilized to address the projected budget shortfall.

## **FY2016-17 Deficits**

Requests for FY2016-17 supplemental General Funds (aka deficits) total \$18.4 million. The largest is \$7.8 million for Nebraska Families Collaborative in child welfare and \$9.9 million in Medicaid for prescription drug clawback and Medicare Part B premiums. A complete listing of deficits is included in Appendix C (page 23).

# Projected General Fund Financial Status

	Current Year FY2016-17	Upcoming Biennium FY2017-18    FY2018-19		Following Biennium FY2019-20    FY2020-21	
<b>1 BEGINNING BALANCE</b>					
2 Beginning Cash Balance	531,652,199	(34,941,456)	(350,137,762)	(640,111,145)	(829,664,591)
3 Cash Reserve transfers-automatic	0	0	0	0	0
4 Carryover obligations from FY16	(314,441,016)	0	0	0	0
5 Lapse FY16 reappropriations	0	0	0	0	0
6 Allocation for potential deficits	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	217,211,183	(39,941,456)	(355,137,762)	(645,111,145)	(834,664,591)
<b>8 REVENUES &amp; TRANSFERS</b>					
9 Net Receipts (Oct 2016 NEFAB+hist avg)	4,395,000,000	4,538,000,000	4,730,000,000	5,030,000,000	5,330,000,000
10 General Fund transfers-out	(217,100,000)	(236,800,000)	(236,800,000)	(236,800,000)	(236,800,000)
11 General Fund transfers-in	0	0	0	0	0
12 Cash Reserve transfers (current law)	0	0	0	0	0
13 2017 Cash Reserve transfers	0	0	0	0	0
14 2017 General Fund transfers-out	0	0	0	0	0
15 2017 General Fund transfers-in	0	0	0	0	0
16 2017 Revenue Bills	0	0	0	0	0
17 General Fund Net Revenues	4,177,900,000	4,301,200,000	4,493,200,000	4,793,200,000	5,093,200,000
<b>18 APPROPRIATIONS</b>					
19 Appropriations (2015 Session)	4,411,690,837	4,411,690,837	4,411,690,837	4,411,690,837	4,411,690,837
20 2017 Mainline Budget Adjustments	18,361,802	199,705,469	366,482,546	366,482,546	366,482,546
21 Projected budget increase, following biennium	--	0	0	199,580,064	391,414,748
21 2017 State Claims	0	0	0	0	0
22 2017 "A" Bills	0	0	0	0	0
23 General Fund Appropriations	4,430,052,639	4,611,396,306	4,778,173,383	4,977,753,446	5,169,588,131
<b>24 ENDING BALANCE</b>					
25 Dollar ending balance (per Financial Status)	(34,941,456)	(350,137,762)	(640,111,145)	(829,664,591)	(911,052,722)
26 Dollar ending balance (at Minimum Reserve)			255,129,861		269,309,384
27 Excess (shortfall) from Minimum Reserve			<b>(895,241,005)</b>		<b>(1,180,362,106)</b>
28 Biennial Reserve (%)			-6.8%		-9.0%
<b>General Fund Appropriations</b>					
29 Annual % Change - Appropriations (w/o deficits)	3.3%	4.5%	3.6%	4.2%	3.9%
30 Two Year Average	3.7%	--	4.1%	--	4.0%
<b>General Fund Revenues</b>					
31 Est. Revenue Growth (rate/base adjusted)	3.4%	4.0%	4.6%	5.9%	6.0%
32 Two Year Average	1.9%	--	4.3%	--	6.0%
33 Five Year Average	4.3%	--	3.7%	--	4.7%
34 On-Going Revenues vs Appropriations	(252,152,639)	(310,196,306)	(284,973,383)	(184,553,446)	(76,388,131)

<b>CASH RESERVE FUND</b>	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Beginning Balance	730,655,108	637,639,649	637,639,649	630,479,237	630,479,237
Excess of certified forecasts (line 3 in Status)	0	0	0	0	0
To/from Gen Fund per current law	0	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(43,015,459)	0	(7,160,412)	0	(13,276,302)
To Transportation Infrastructure Fund	(50,000,000)	0	0	0	0
<b>2017 - To General Fund</b>	0	0	0	0	0
Projected Unobligated Ending Balance	637,639,649	637,639,649	630,479,237	630,479,237	617,202,935

# Chronology of Projected Financial Status

(millions of dollars)	FY16 / FY17 Biennium	FY18/FY19 Biennium	FY20/FY21 Biennium
<b>Variance from Minimum Reserve: Sine Die 2016 Session</b>	<b>4.5</b>	<b>(234.5)</b>	<b>na</b>
1 FY16 Actual vs Est. General Fund Net Receipts	(120.0)	(120.0)	--
2 FY16 Actual vs Est. CRF transfers-automatic	17.0	17.0	--
3 FY16 Actual vs Est. Accounting adjustment	(6.0)	(6.0)	--
4 NDR change in withholding, impact of (indexing	(12.9)	(12.9)	--
5 Change in Minimum Reserve	3.5	3.5	--
<b>Variance from Minimum Reserve: TRR July 2016</b>	<b>(113.7)</b>	<b>(352.7)</b>	<b>na</b>
6 Revenue Forecasts (revised / original Oct 2016)	(172.2)	(575.1)	--
7 "Above certified" FY16 forecast to CRF	0.0	0.0	--
8 Change in Minimum Reserve	5.0	16.7	--
<b>Variance from Minimum Reserve: NEFAB Oct 2016</b>	<b>(281.0)</b>	<b>(911.1)</b>	<b>na</b>
9. Deficit requests vs \$5M	(13.4)	(13.4)	--
10. Revised estimate of FY18/FY19 projected budget (2 yr total)	0.0	28.8	--
11. Change in Minimum Reserve	0.0	.4	--
<b>Variance from Minimum Reserve: TRR November 2016</b>	<b>(294.3)</b>	<b>(895.3)</b>	<b>(1,180.4)</b>

## NOTES:

Item 6	Revised Revenue Forecasts:	
	Revised NEFAB forecast for FY16-17	\$172.2 million
	Original NEFAB forecasts vs LFO Prelim for FY17-18	200.3 million
	Original NEFAB forecasts vs LFO Prelim for Y18-19	202.5 million
	Three Year Total	575.1 million

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

<u>Item</u>	<u>FY17-18</u>	<u>FY18-19</u>	<u>Total</u>
Education - Revised TEEOSA estimates (Oct 2016 Joint Meeting)	2.0	0.5	2.5
Revenue - Personal Property Tax Relief Act (est vs request)	4.0	3.8	7.8
Retirement - defined benefit plans	(16.8)	(18.1)	(34.8)
Corrections - Inmate per diem costs (3% vs request)	1.9	3.9	5.9
DHHS - FMAP	14.7	18.5	33.2
DHHS - Medicaid (eligibility, utilization, specific items)	(8.3)	(1.5)	(9.8)
DHHS - Child Welfare (eligibility, utilization, specific items)	(3.7)	0.7	(3.0)
DHHS - Public Assistance (eligibility, utilization, specific items)	2.5	5.1	7.6
DHHS - Provider rates (2.5% vs 2%, eligibility, utilization, specific items)	1.5	11.2	12.7
Corrections - Retain/reallocate inmate county jail program funds	(4.6)	(4.6)	(9.2)
Operations cost increases (est to 24/7 facility request)	5.0	10.0	15.0
Revised estimate of budget increases, all other	0.4	0.6	0.9
Total	(1.3)	30.1	28.8

# Cash Reserve Fund

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

The Cash Reserve Fund unobligated balance is projected at \$617 million based on current forecasts and actions taken in the 2016 and prior legislative sessions.

Table 1 Cash Reserve Fund

	Actual FY2016-17	Estimated FY2017-18	Estimated FY2018-19	Estimated FY2019-20	Estimated FY20-21
Beginning Balance	730,655,108	637,639,649	637,639,649	630,479,237	630,479,237
Excess of certified forecasts	0	0	0	0	0
To General Fund per current law	0	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(43,015,459)	0	(7,160,412)	0	(13,276,302)
To Transportation Infrastructure Fund	(50,000,000)	0	0	0	0
2017 - To General Fund	0	0	0	0	0
Ending Balance	637,639,649	637,639,649	630,479,237	630,479,237	617,202,935

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 (See Appendix A). Over the 30 year period the average negative variance is -4.3% 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 average forecast from FY16 to FY19 the target balance would be \$746 million.

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

IT SHOULD BE NOTED THAT THE DISCUSSION IN THE PREVIOUS PARAGRAPHS PERTAIN TO THE LEVEL OF THE CASH RESERVE FUND AT ITS PEAK AFTER THE PART OF THE CYCLE WITH POSITIVE REVENUE GROWTH AND POSITIVE VARIANCES FROM FORECAST. AS WE

TURN INTO THE NEGATIVE PART OF THIS CYCLE, THE QUESTION IS HOW MUCH OF THE CASH RESERVE FUND CAN OR SHOULD BE UTILIZED TO ADDRESS THE PROJECTED BUDGET SHORTFALL.

### Excess of Certified Forecasts

Shown on line 3 of the Financial Status, revenues in excess of "certified" forecasts are required by statute to be transferred from the General Fund to the Cash Reserve Fund. These would take place in July of the fiscal year following completion of that year.

FY2015-16 actual receipts were well below the certified forecast thus no transfers in FY2016-17. Also the current forecast for FY2016-17 is below the July certified.

### Transfers-To & From General Fund

Unlike the automatic transfers that occur after the close of the fiscal year and are statutorily required, other transfers can take place as specifically enacted by the Legislature.

No transfers to the General Fund are currently authorized for the five year status.

### Transfers To & From Other Funds

In the 2013 session, LB 200 provided for a \$43,015,459 transfer from the Cash Reserve Fund to the Nebraska Capital Construction Fund (NCCF) sometime between July 1, 2013 and June 30, 2017 at the discretion of the Budget Administrator for construction of a new Central Nebraska Veterans Home to replace the existing facilities. Originally this transfer was shown in FY13-14, however it has been shifted to FY16-17 since the actual transfer has not yet been made.

In the 2015 session, the enacted budget called for a \$28.2 million of transfers to the NCCF for the State Capitol HVAC project. This included \$7,804,292 in FY2015-16, and future transfers of \$7,160,412 in FY2018-19, \$9,492,568 in FY2020-21, and \$3,783,734 in FY2022-23

In the 2016 session, LB 960 provided for a \$50 million transfer to a newly created Transportation Infrastructure Bank Fund

Table 2 Cash Reserve Fund – Historical Balances

Fiscal Yr	Beginning Balance	Direct Deposit and Interest	Automatic Transfers	Legislative Transfers	Cash Flow	Ending Balance	Balance as % of revenue
FY1983-84	0	37,046,760	na	0	0	37,046,760	4.7%
FY1984-85	37,046,760	(1,472,551)	na	0	0	35,574,209	4.5%
FY1985-86	35,574,209	227,855	na	(13,500,000)	0	22,302,064	2.7%
FY1986-87	22,302,064	1,428,021	na	0	0	23,730,085	2.7%
FY1987-88	23,730,085	1,654,844	na	(7,700,000)	0	17,684,929	1.7%
FY1988-89	17,684,929	139,000	na	32,600,000	0	50,423,929	4.4%
FY1989-90	50,423,929	113,114	na	(10,500,000)	0	40,037,043	3.5%
FY1990-91	40,037,043	0	na	(8,100,000)	0	31,937,043	2.3%
FY1991-92	31,937,043	0	na	(5,000,000)	0	26,937,043	1.8%
FY1992-93	26,937,043	0	na	(9,500,000)	0	17,437,043	1.1%
FY1993-94	17,437,043	0	3,063,462	7,250,000	0	27,750,505	1.7%
FY1994-95	27,750,505	0	(8,518,701)	1,250,000	0	20,481,804	1.2%
FY1995-96	20,481,804	0	(20,481,804)	18,189,565	0	18,189,565	1.0%
FY1996-97	18,189,565	0	19,740,786	3,032,333	0	40,962,684	2.0%
FY1997-98	40,962,684	0	91,621,018	0	0	132,583,702	6.3%



Fiscal Yr	Beginning Balance	Direct Deposit and Interest	Automatic Transfers	Legislative Transfers	Cash Flow	Ending Balance	Balance as % of revenue
FY1998-99	132,583,702	0	111,616,422	(98,500,000)	0	145,700,124	6.9%
FY1999-00	145,700,124	0	20,959,305	(24,500,000)	0	142,159,429	5.9%
FY2000-01	142,159,429	0	77,576,670	(49,500,000)	0	170,236,099	6.9%
FY2001-02	170,236,099	0	0	(60,170,000)	0	110,066,099	4.7%
FY2002-03	110,066,099	66,476,446	0	(87,400,000)	(30,000,000)	59,142,545	2.4%
FY2003-04	59,142,545	59,463,461	0	(61,577,669)	30,000,000	87,028,337	3.2%
FY2004-05	87,028,337	8,170,556	108,727,007	(26,758,180)	0	177,167,720	5.8%
FY2005-06	177,167,720	0	261,715,297	(165,266,227)	0	273,616,790	8.2%
FY2006-07	273,616,790	0	259,929,524	(17,458,523)	0	516,087,791	15.1%
FY2007-08	516,087,791	0	191,436,773	(161,978,767)	0	545,545,797	15.6%
FY2008-09	545,545,797	0	116,976,571	(84,330,505)	0	578,191,863	17.2%
FY2009-10	578,191,863	0	0	(110,990,237)	0	467,201,626	14.6%
FY2010-11	467,201,626	0	0	(154,000,000)	0	313,201,626	8.9%
FY2011-12	313,201,626	8,422,528	145,155,092	(33,439,198)	(4,461,676)	428,878,372	11.6%
FY2012-13	428,878,372	0	104,789,781	(154,008,427)	4,461,676	384,121,402	9.5%
FY2013-14	384,121,402	0	285,292,610	49,651,294	0	719,065,306	17.5%
FY2014-15	719,065,306	0	96,721,232	(87,951,112)	0	727,835,426	16.9%
FY2015-16	727,835,426	0	84,599,532	(81,779,850)	0	730,655,108	17.0%
FY2016-17 Est	730,655,108	0	0	(93,015,459)	0	637,639,649	14.5%
FY2017-18 Est	637,639,649	0	0	0	0	637,639,649	14.1%
FY2018-19 Est	637,639,649	0	0	(7,160,412)	0	630,479,237	13.3%
FY2019-20 Est	630,479,237	0	0	0	0	630,479,237	12.5%
FY2020-21 Est	630,479,237	0	0	(13,276,302)	0	617,202,935	11.6%

# General Fund Revenues

## General Fund Revenue Forecasts

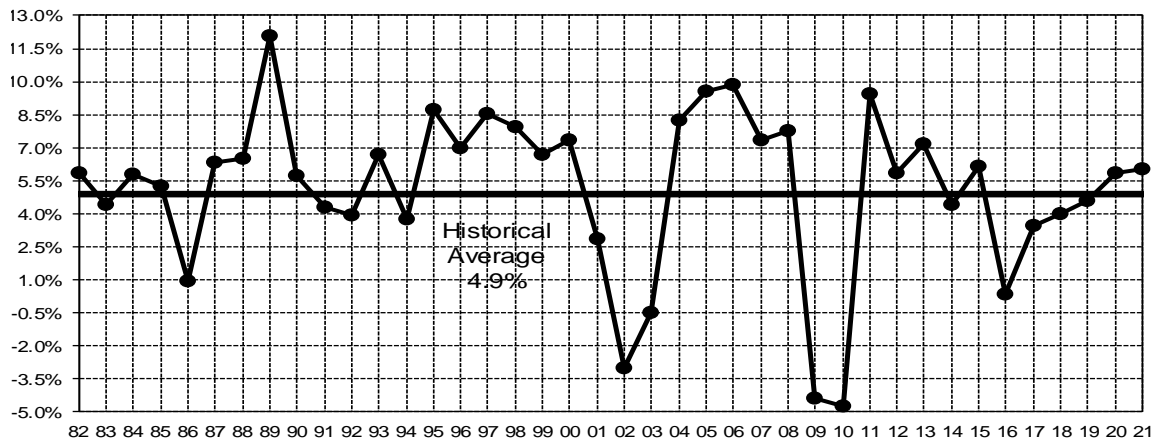
### Current Biennium (FY2016-17, FY2017-18 and FY2018-19)

Revenue estimates for FY2016-17, FY2017-18 and FY2018-19 are the October 2016 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Rate and base adjusted revenue growth implied by the forecasts for the FY18/FY19 biennium average 4.3% (4.0% in FY17-18 and 4.6% in FY18-19). When including the 3.4% growth in the FY16-17 forecast, there is an average growth of 4.0% over the three years that affect the financial status for the upcoming biennium. This reflects growth below the 4.9% historical 35 year average.

Table 3 General Fund Revenue Forecasts

	NEFAB FY2016-17	NEFAB FY2017-18	NEFAB FY2018-19	LFO Prelim FY2019-20	LFO Prelim FY2020-21
<b>Actual/Forecast</b>					
Sales and Use Tax	1,585,000,000	1,640,000,000	1,700,000,000	1,790,000,000	1,890,000,000
Individual Income Tax	2,345,000,000	2,445,000,000	2,575,000,000	2,740,000,000	2,915,000,000
Corporate Income Tax	245,000,000	270,000,000	280,000,000	305,000,000	340,000,000
Miscellaneous receipts	220,000,000	183,000,000	175,000,000	195,000,000	185,000,000
<b>Totals</b>	<b>4,395,000,000</b>	<b>4,538,000,000</b>	<b>4,730,000,000</b>	<b>5,030,000,000</b>	<b>5,330,000,000</b>
<b>Adjusted Growth</b>					
Sales and Use Tax	4.1%	3.4%	3.5%	4.9%	5.2%
Individual Income Tax	6.5%	4.1%	5.7%	6.4%	6.4%
Corporate Income Tax	-17.6%	9.8%	3.6%	8.2%	10.5%
Miscellaneous receipts	-1.6%	-0.2%	2.7%	4.0%	1.5%
<b>Total</b>	<b>3.4%</b>	<b>4.0%</b>	<b>4.6%</b>	<b>5.9%</b>	<b>6.0%</b>
<b>Five Yr Average</b>	<b>4.3%</b>	<b>--</b>	<b>3.7%</b>	<b>--</b>	<b>4.7%</b>

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



## Following Biennium (FY2020 and FY2021)

The NEFAB does not make official forecasts for the following biennium or what's commonly referred to as the "out years". Although different methodologies could be utilized, the revenue estimates used for the following biennium (FY19-20 and FY20-21) are derived by the Legislative Fiscal Office (LFO) using a "capped" historical average methodology. This "smoothing" technique derives "out year" revenue estimates by calculating the level of revenues that would yield a five year average growth (FY17 to FY21) roughly equal to the 34 year historical average (4.9%) less .25% which is the projected impact of indexing the tax brackets as enacted in 20104 (LB987).. Inherent in this methodology is the concept that within any five-year period, below average revenue growth in some years will be offset by above average growth in others and is visually seen in the line graph of historical adjusted revenue growth.

The "capped" provision of this methodology means that the derived growth needed in the out-years to achieve the historical average cannot be higher than the "above average" growth years nor lower than the "below average" growth years. Over the past 35 years, there were 12 years in which revenue growth was "below average" (1.0% average) and 23 years in which revenue growth was above average (7.3% average).

Because the revenue growth in the NEFAB forecasts is below average, the revenue growth needed to yield a 4.7% five year average is 6.0% in both FY19-20 and FY20-21.

Alternative methods are also available for purposes of deriving revenue estimates for the following biennium. In addition to the historical average methodology used in the financial status, both the Nebraska Dept of Revenue (NDR) and Legislative Fiscal Office (LFO) have calculated revenue estimates for these two "out years" using the same models and input from HIS Economics (previously Global Insight) and Moody's, the national forecasting services used as input into the tax forecast models. While these forecasts work well for the 1 to 3 year forecasts, when extended further they have a tendency to flatten out and follow the 3 year trend into the 4<sup>th</sup> and 5<sup>th</sup> year. In other words, they have difficulty picking up changes in the trend. The historical average methodology has been used since 1991 and the "smoothing" technique used for the most part relies on the trend changes.

As shown in Table 4, the preliminary estimates for the two "out years" arrived at using the historical average concept (as used in the Financial Status) are somewhat higher but not dramatically different.

Table 4 Comparison of "Out Year" Forecasts

<b>Based on Oct 2016 Revenue Forecasts</b>	Current Status	Average IHS Economics	Average All Forecasts	High Est LFO-Moodys	Low Est NDR IHS
<b><u>Dollar Forecast (thousands)</u></b>					
FY2019-20 Prelim	5,030,000	5,010,215	5,024,408	5,038,601	5,010,215
FY2020-21 Prelim	5,330,000	5,237,047	5,242,442	5,247,837	5,237,047
<b><u>Calculated Growth (adjusted)</u></b>					
FY2019-20 Prelim	5.9%	4.3%	4.3%	4.3%	4.3%
FY2020-21 Prelim	6.0%	4.7%	4.5%	4.3%	4.7%
Two Year Average	6.0%	4.7%	4.8%	4.9%	4.7%
<b>Five Year Average</b>	<b>4.8%</b>	<b>4.4%</b>	<b>4.4%</b>	<b>4.5%</b>	<b>4.4%</b>
<b><u>\$ Difference from Status</u></b>					
FY2019-20 Prelim	0	(19,785)	(5,592)	8,601	(19,785)
FY2020-21 Prelim	0	(92,953)	(87,558)	(82,163)	(92,953)
Cumulative Total	0	(112,738)	(93,150)	(73,562)	(112,738)

# General Fund Transfers-Out

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

Table 5 - General Fund Transfers Out

Excludes CRF Transfers	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Property Tax Credit Fund	(202,000,000)	(222,000,000)	(222,000,000)	(222,000,000)	(222,000,000)
Water Resources Cash Fund	(3,300,000)	(3,300,000)	(3,300,000)	0	0
Cultural Preservation Endowment Fund	(750,000)	(500,000)	(500,000)	(500,000)	(500,000)
Water Sustainability Fund	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)
<i>Total-General Fund Transfers-Out</i>	(217,100,000)	(236,800,000)	(236,800,000)	(233,500,000)	(233,500,000)

## Property Tax Credit Cash Fund

Under this program transfers are made to the Property Tax Credit Cash Fund at the discretion of the Legislature. Based on the amount of funds available, monies are then allocated to counties by the ratio of the real property valuation in the county to the real property valuation in the state. Counties then allocate funds as credit to each tax payer again based on their proportionate value. Enacted in 2007, the amount available for credits was \$105 million in FY07-08, and \$115 million in FY08-09 through FY13-14. During the 2014 session, the FY14-15 amount was increased to \$140 million. In the 2015 session, the credit was increased by \$64 million increase to a total of \$204 million.

In the 2016 session, LB 958 made several changes dealing with the Property Tax Credit Act. Previously the property tax credit was distributed based on 100% of the taxable value of real property. Under LB 958, the credit is distributed using "credit allocation valuation" which is 120% of agricultural and horticultural land taxable value and 100% for all other real property except agricultural and horticultural land. This change would shift \$20 million of the property tax credit amounts from residential, commercial and industrial, and public service sectors to agriculture so to hold these other sectors harmless, LB958 provided language that the credit amount should be increased by \$20 million to a total of \$224 million.

Note that the General Fund transfer amounts shown are all \$2 million less than the credit amount. This is because the credit amount is funded through these General Fund transfers plus an estimated \$2 million from any interest that will be earned on the fund balance from the time of transfer to the time of reimbursement payments to the counties, and credits calculated but unpaid relating to properties receiving homestead exemptions.

## Water Resources Cash Fund

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

language the transfers are deleted starting in FY2019-20.

## Nebraska Cultural Preservation Endowment Fund

The Cultural Preservation Endowment Fund was originally created in 1998 with a transfer of \$5 million from the General Fund. LB 1165 (2008) provided for an additional \$5 million for the endowment fund through a \$1 million transfer from the Cash Reserve Fund and another \$4 million from the General Fund provided over a series of years. After multiple alterations of the fiscal year transfers, the final transfers, which averaged \$500,000 were scheduled to expire at the end of FY2016-17. LB957 (2016) extends the transfers at \$500,000 per year starting in FY2017-18 through FY2026-27.

## Water Sustainability Fund

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

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## General Fund Transfers In

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Cash funds are funds which contain earmarked revenue sources and monies in those funds can only be used for the purposes authorized by statute. In many instances (since the 2009 special session) an authorized use of monies in a cash fund is transfers to the General Fund at the discretion of the Legislature. For accounting purposes, these are shown as “Transfers in” and are included as revenues. The transfers shown below for FY2016-17 were enacted in the 2015 and 2016 sessions and already incorporated into the “Net Receipts” figures of the NEFAB forecasts

At the present time, current law does not provide for any transfers in FY2017-18 and FY2018-19 and as such the revenue forecasts do not include any transfers.

Table 6 General Fund Transfers In

	FY2016-17	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Securities Act Cash Fund	31,000,000	0	0	0	0
Tobacco Products Admin Cash Fund	10,000,000	0	0	0	0
Dept of Insurance Cash Fund	8,250,000	0	0	0	0
Dept of Motor Vehicles Ignition Interlock Fund	200,000	0	0	0	0
Severance Tax Admin Cash Fund	150,000	0	0	0	0
Job Training Cash Fund	250,000	0	0	0	0
<i>Total General Fund Transfers-In</i>	48,850,000	0	0	0	0

# General Fund Appropriations

Table 7 reflects General Fund totals for the projected budget based on the increases noted in Table 8. These increases are a "best guess" estimate of budget changes for the upcoming biennial budget and the following biennium. A narrative description of the assumptions used in arriving at these numbers follows Table 8. A summary breakdown of the projected budget is included in Appendix B.

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

In many cases, the projected increases for the upcoming biennial budget (FY17-18 and FY18-19) reflect agency requests for the items shown while estimated increases for the following biennium (FY19-20 and FY20-21) are based on historical trends.

**Note that in most cases, rationales for the FY2017-18 and FY2018-19 requests are not available as these requests are currently under analysis.**

Overall the projected budget results in a budget growth of 4.5% in FY2017-18 and 3.6% in FY2018-19, a 4.1% two year average

Table 7 Projected General Fund Budget

	Current Year FY2016-17	Upcoming Biennial Budget		Est for Following Biennium	
		FY2017-18	FY2018-19	FY2019-20	FY2020-21
<b><u>Projected Budget</u></b>					
Agency Operations	1,580,659,703	1,649,186,842	1,700,495,084	1,755,124,761	1,811,914,896
State Aid to Ind/Other	1,398,520,670	1,462,048,478	1,507,018,459	1,591,871,012	1,665,112,849
State Aid to Local Govt	1,410,271,464	1,468,392,653	1,539,693,314	1,600,523,788	1,663,963,362
Construction	22,239,000	31,768,333	30,966,526	30,233,885	28,597,025
Total (w/o deficits)	4,411,690,837	4,611,396,306	4,778,173,383	4,977,753,446	5,169,588,131
<b><u>Dollar Change</u></b>					
Operations	--	68,527,139	51,308,242	54,629,677	56,790,135
State Aid to Ind/Other	--	63,527,808	44,969,981	84,852,553	73,241,836
State Aid to Local Govt	--	58,121,189	71,300,661	60,830,474	63,439,574
Construction	--	9,529,333	(801,807)	(732,641)	(1,636,860)
Total (w/o deficits)	--	199,705,469	166,777,077	199,580,064	191,834,685
<b><u>Percent Change</u></b>					
Agency Operations	--	4.3%	3.1%	3.2%	3.2%
State Aid to Ind/Other	--	4.5%	3.1%	5.6%	4.6%
State Aid to Local Govt	--	4.1%	4.9%	4.0%	4.0%
Construction	--	42.8%	-2.5%	-2.4%	-5.4%
Total (w/o deficits)	--	4.5%	3.6%	4.2%	3.9%

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

Change over Prior Year	Projected Growth		Upcoming Biennial Budget		Est for Following Biennium	
	FY17-18	FY18-19	FY2017-18	FY2018-19	FY2019-20	FY2020-21
<b><u>Aid to Local Governments</u></b>						
Aid to K-12 Schools (TEEOSA GF only)	5.3%	5.8%	50,004,326	58,497,713	48,031,426	50,268,661
Special Education	2.5%	2.5%	5,551,578	5,690,367	5,832,627	5,978,442
Community Colleges	3.5%	3.5%	3,528,991	3,652,505	3,780,343	3,912,655
Homestead Exemption	3.2%	2.8%	2,285,000	2,100,000	2,307,000	2,376,210
Personal Property Tax Relief Act	-18.4%	6.3%	(3,600,000)	1,000,000	510,000	525,300
Aid to ESU's	2.5%	2.5%	351,294	360,076	369,078	378,305
Other (Aid-Local)	5.3%	5.8%	0	0	0	0
<b><u>Aid to Individuals / Other</u></b>						
Medicaid	4.6%	3.9%	38,846,087	34,828,843	41,577,042	43,448,009
Public Assistance	7.2%	0.6%	7,828,059	720,950	5,832,154	6,123,761
Child Welfare Aid	7.3%	1.9%	11,654,744	3,198,177	7,721,137	7,310,707
Developmental Disability aid	2.3%	3.3%	3,513,952	5,047,429	6,369,174	6,623,941
Behavioral Health aid	2.3%	2.0%	1,676,895	1,510,434	1,925,802	1,973,948
Childrens Health Insurance (SCHIP)	0.1%	4.2%	8,071	268,060	21,427,244	7,761,470
Aging Demonstration (LB320-2015)	--	--	0	(603,912)	0	0
Other (Aid-Ind)	4.6%	3.9%	0	0	0	0
<b><u>State Agency Operations</u></b>						
Employee Salaries (agencies)	2.5%	2.5%	11,556,736	11,834,092	12,141,507	12,445,044
Employee Health Insurance (agencies)	8.0%	8.0%	6,626,226	7,156,325	7,728,832	8,347,138
University/Colleges increased funding	est amt	est amt	25,638,375	27,277,138	26,275,748	27,317,879
Operations increase (all agencies)	est amt	est amt	474,302	114,454	5,802,554	5,918,605
Annualize Justice Reinvestment Act (Courts)	est amt	est amt	4,420,235	2,992,616	0	0
Juvenile services (Courts)	est amt	est amt	703,176	724,271	745,999	768,379
Inmate per diem costs (Corrections)	est amt	est amt	0	0	1,935,038	1,993,089
Staffing / population costs (Corrections)	est amt	est amt	4,607,147	0	0	0
Temporary housing, county jails (Corrections)	est amt	est amt	(4,607,147)	0	0	0
Global Center per to \$5M (University)	est amt	est amt	3,000,000	0	0	0
Retirement (Schools, Patrol, Judges)	est amt	est amt	16,753,696	1,315,961	0	0
Other (Oper)	est amt	est amt	(645,607)	(106,615)	0	0
<b><u>Capital Construction</u></b>						
	Reaff	Reaff	9,529,333	(801,807)	(732,641)	(1,636,860)
<b><u>Total General Fund-Annual Increase</u></b>			199,705,469	366,482,546	199,580,064	191,834,685
Biennial Basis			199,705,469	366,482,546	199,580,064	191,834,685

\* Included in the salary and health insurance numbers

# Aid to Local Governments

## State Aid to Schools (TEEOSA)

The agency request basically reflected the 2016 Sine Die TEEOSA estimates for FY18 and FY19 which called for increased TEEOSA aid of \$52 million in FY17-18 and \$110 million in FY18-19. These numbers have been revised in the Fall 2016 statutory required meeting of the Dept. of Education, Legislative Fiscal Office, and DAS Budget Office. At that meeting, spending and valuation assumptions yielded a total TEEOSA number of \$1.030 billion for FY2017-18 and \$1.089 billion for FY2017-18, very close to the Sine Die estimate.

<b>TEEOSA Summary</b>	All Funds FY2016-17	All Funds FY2017-18	All Funds FY2018-19	All Funds FY2019-20	All Funds FY2020-21
School Disbursements	3.81%	3.35%	4.24%	4.0%	4.0%
Property Valuations (assessed)	10.4%	4.65%	3.48%	3.5%	3.5%
Property Valuations (used in formula)	0.2%	23.4%	3.8%	3.9%	3.9%
Factor to adjust for "unused" LER yield	68.70%	80.58%	80.85%	81.15%	81.45%
Cost Growth Factor	5.00%	5.00%	5.00%	5.00%	5.00%
Local Effort Rate	\$1.000	\$1.000	\$1.000	\$1.000	\$1.000
<b>Total Formula Need</b>	3,337,058,200	3,460,690,115	3,608,157,108	3,752,483,220	3,902,582,549
Effective Yield from Local Effort Rate	1,565,258,400	1,931,523,386	2,005,282,257	2,083,166,537	2,164,047,815
Net Option Funding	60,059,609	100,483,701	104,743,386	108,933,122	113,290,447
Allocated Income Tax	42,230,208	42,230,480	43,708,547	45,238,346	46,821,688
Other Actual Receipts	478,458,825	498,751,981	513,114,695	527,722,487	542,774,198
Minimum Levy Adjustment	302,817,529	0	0	0	0
Community Achievement Plan Aid	--	5,931,606	6,183,057	6,430,380	6,687,595
<b>Total Formula Resources</b>	2,448,824,571	2,578,921,155	2,673,031,943	2,771,490,872	2,873,621,743
Calculated Equalization Aid	888,233,630	881,768,960	935,125,165	980,992,348	1,028,960,806
Net Option Funding	60,059,609	100,483,701	104,743,386	108,933,122	113,290,447
Allocated Income Tax	42,230,208	42,230,480	43,708,547	45,238,346	46,821,688
Non Equalized Levy Adjustment	(6,274,412)	0	0	0	0
Community Achievement Plan Aid	--	5,931,606	6,183,057	6,430,380	6,687,595
Learning Community, impact on equalization aid	(4,936,066)	0	0	0	0
<b>TEEOSA State Aid</b>	979,153,581	1,030,414,748	1,089,760,156	1,141,594,196	1,195,760,536
State General Funds	952,478,203	1,002,157,907	1,060,655,620	1,108,687,046	1,158,955,707
Insurance Premium Tax (w/o deficit)	27,159,388	28,256,841	29,104,536	32,907,150	36,804,828
<b>Total TEEOSA Aid</b>	979,312,969	1,030,414,748	1,089,760,156	1,141,594,196	1,195,760,536
<b>Change Over Prior Year</b>					
Total Aid \$ Change	6,276,343	51,101,779	59,345,408	51,834,040	54,166,340
Total Aid % Change	0.6%	5.2%	5.8%	4.8%	4.7%
Gen Fund \$ Change	5,613,919	50,004,326	58,497,713	48,031,426	50,268,661
Gen Fund % Change	0.6%	5.3%	5.8%	4.5%	4.5%

<b>Chronology of TEEOSA Estimates</b>	All Funds FY2016-17	All Funds FY2017-18	All Funds FY2018-19	All Funds FY2019-20	All Funds FY2020-21
Sine Die 2016	979,312,969	1,028,952,149	1,089,677,277	0	0
Calculation changes when updating new data years	0	(32,942)	(209,453)	na	na
Adjustments to LB1067 calculations	0	462,754	470,706	na	na
Valuation, 2016 actual from 5.29% to 4.65% DPAT certified	0	(4,042,065)	(4,458,658)	na	na
Valuation; 2017 (4.0% to 3.48% DPAT est)	0	0	1,364,805	na	na
Spending growth: FY17 4.0% to 4.24% (first budget to budget)	0	0	(2,273,615)	na	na
Student Growth Adjustment	0	(1,898,728)	(2,036,125)	na	na
New School Adjustment	0	7,429,908	7,559,342	na	na
Adjustment for 2014-15 AFR change	0	(890,449)	(956,071)	na	na
Update Community Achievement plan calculation, inflate	0	134,480	310,355	na	na
All Other	0	299,641	311,593	na	na
Change - Oct 2016 Joint Meeting	0	1,462,599	82,879	na	na
October 2016 Joint Meeting	979,312,969	1,030,414,747	1,089,760,156	1,141,594,196	1,195,760,536



## **Special Education**

The agency request included a 10% increase for both FY17-18 and FY18-19 which is the maximum authorized by statute. Statute provides for a 10% cap on increases in Special Education reimbursement starting in FY14-15 as amended by LB974-2014. The previous cap was 5%. The projection for FY18 and FY19 includes a 2.5% per year increase which is the basic allowable growth rate for those two school years for school districts.

## **Aid to ESU's**

The amount of aid to ESU's is based on funding of a certain level of core services and technology infrastructure. Growth in aid is included at the same rate as the basic allowable growth rate under the K-12 school spending limitation (2.5% per year). The agency request included a percentage growth amount based on the allowable growth rate plus the percentage growth in fall membership for member districts, approximately 3.4% per year increase.

## **Homestead Exemption**

This program is projected to increase by 3.2% in FY18 and 2.8% in FY19. This includes a small amount for annualizing the impact LB683-2016 amounting to \$38,100 in FY18 and \$43,600 in FY19.

## **Personal Property Tax Relief Act**

LB 259 enacted in the 2015 session, adopted the Personal Property Tax Relief Act. The bill provides for an exemption from the property tax on the first \$10,000 of valuation of tangible personal property in each tax district in which a personal property tax return is required to be filed. On or before November 30 of each year, each county treasurer shall certify to the Tax Commissioner the total locally-assessed tax revenue lost to all taxing subdivisions within the county due to the exemption provided for in LB 259. The state then reimburses each county, and subsequently each subdivision, for funds lost due to the exemption for both the locally-assessed taxes and the centrally assessed companies. The reimbursement shall be made in two equal installments on the last business days of February and June.

The original appropriation for the program occurs in FY2016-17 at \$19.6 million. Based on information currently available, it appears the program cost will be closer to \$15 million. The agency request (and projected budget) for FY18 and FY19 reduces the FY17 base by \$4.6 million to reflect the \$15 million level and then provides a \$1 million increase each year for increased costs.

## **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.

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

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### **Medicaid**

For the upcoming biennium, the projected budget is based on the agency request plus a 2% increase in provider rates not included in the request. Also included are annualizing the cost of two deficit items. The continued funding levels were not included in the agency FY18/FY19 request but on-going

funding was acknowledged as part of the deficit request.

Overall increase in General Funds is 4.6% in FY17-18 which includes \$16.4 million for eligibility and utilization increases, \$7.9 million for six specific issues, and \$9.4 million for annualizing the two deficits. There is also included a \$12 million reduction related to an increase in the federal match rate. Though the agency request did not include any increase in provider rates, this projected budget includes a 2% per year increase.

Mediciad	Previous Biennium		Biennial Budget	
	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Base Year appropriation	777,723,897	777,723,897	850,259,344	850,259,344
Base Adjustment	(22,000,000)	(22,000,000)	0	0
Federal match rate (FMAP)	27,468,499	32,099,018	(12,011,784)	(15,014,227)
Utilization	21,434,884	44,203,043	16,415,087	32,054,276
Cost Increases / Provider Rates	14,617,514	29,851,568	17,043,949	34,773,270
Balancing Incentive Program	(2,629,187)	(2,629,187)	0	0
Hepatitis C and Other Medication Impacts	1,800,000	1,800,000	0	0
Physical Health Managed Care Expansion	0	(89,576)	0	0
LB 72 Rreimburse liens, inheritance tax petitions	(21,258)	(21,258)	0	0
LB 243 Create a pilot project, family finding services	9,871	16,216	0	0
LB 366 Change personal needs allowance, Medicaid	347,687	421,802	0	0
LB 500 Medicaid plan, multisystemic therapy	0	425,405	0	0
2016 - Shift GF from SPED to Early Intervention LB276	0	2,526,847	0	0
2016 - Higher FFY2017 FMAP - Medicaid	0	(3,823,431)	0	0
2016 - base reduction, excess funds to child welfare	0	(10,000,000)	0	0
2016 - MIPS operations, shift ffrom Prog 348 to Prog 033	0	(245,000)	0	0
Hepatitis C	0	0	1,535,100	1,529,295
Medication Assisted Treatment	0	0	879,122	925,570
Nutrition Services	0	0	720,160	752,853
Specialized Services	0	0	2,735,007	2,789,707
Therapeutic Foster Care	0	0	2,090,592	2,142,856
Medicare Part B Premiums Increase (annualize deficit)	0	0	4,281,417	6,801,587
Clawback (annualize deficit)	0	0	5,157,437	6,919,743
<b>Total – New Appropriation</b>	<b>818,751,907</b>	<b>861,800,928</b>	<b>889,105,431</b>	<b>923,934,274</b>
Annual \$ Change (excluding deficits)	41,028,010	31,507,437	38,846,087	34,828,843
Annual % Change (excluding deficits)	5.3%	3.8%	4.6%	3.9%

## Children’s Health Insurance (SCHIP)

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

While the increase in the upcoming biennium is modest, there is a sizable increase in the following biennium. The 23% ACA enhanced match rate expires Sept 2019 (end of FFY2019). On a state FY basis, this adds 17.25% to FY19-20 (\$20 million) and an additional 5.75% to FY20-21 (\$6 million).

## Public Assistance

For the upcoming biennium, the agency requested no change in funding for this program in either FY18 or FY19. The request includes no increase for eligibility, utilization, or rate increases.

The projected budget includes no changes in eligibility or utilization but does include a 2% per year increase in provider rates. The projected budget also assumes a 10% increase in FY16-17 for child care rates in anticipation of some change related to the market place study.

## **Child Welfare**

Like Public Assistance for the upcoming biennium, the agency request includes no increase for eligibility, utilization, or rate increases.

The projected budget also assumed no change in eligibility or utilization but does include a 2% provider rate increase.

The projected budget also includes \$7.8 million each year to annualize the deficit for child welfare. This supplemental deficit request is to cover additional costs incurred by Nebraska Families Collaborative (NFC) due to a projected increase in the number of youth served by NFC during SFY 2017. This amount was not included in the FY18/FY19 and the deficit request for FY17 did not reference this as being an on-going additional cost. However at this point in time, it's unclear how this higher FY17 level would not carry over into the new biennium so the amounts are carried forward subject to further review and analysis.

## **Developmental Disability Aid**

Funding for developmental disability aid increases by 2.3% in FY17-18 and 3.3% in FY18-19. This includes \$1.4 million in FY18 and an additional \$1.2 million in FY19 for clients transitioning from K-12 programs and a \$2.3 million reduction in FY18 due to a higher FMAP. Although the DHHS request did not include any increased funding for rate equity, this projected budget includes a 2.5% per year rate equity increase the same as utilized for state employee salary increases. This projected budget also does not include any additional funds related to reducing the waiting list.

## **Behavioral Health Aid**

This area includes substance abuse and mental health aid. Similar to Public Assistance and Child Welfare, the agency request includes no increase for eligibility, utilization, or rate increases.

Items not included in the agency request but which are in this projected budget include a 2% per year increase in provider rates and a \$200,000 base restoration related to the one-time shift of funds from aid to operations for the systems of care plan study (LB911-2016).

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# ***State Agency Operations***

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## **Employee Salary Increases**

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

## **Employee Health Insurance**

At the present time insurance rates and cost increases for FY2017-18 and FY2018-19 are unknown although the DAS budget instructions included an 8% per year increase. For state agencies this projected status includes an 8% per year increase as noted in the budget instructions..

## Supreme Court

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. The amount included in the projected budget is based on the following chart associated with the LB605 fiscal note excluding additional judges which would require statutory changes.

<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
Increase over FY17 base (excluding judges)			4,420,235	7,412,851

As part of the LB561 juvenile justice system changes, about \$24 million of funds were shifted from child welfare aid to the courts budget. When this funding/programs were under DHHS, some level of utilization and price adjustments were historically provided. The second item is a 3% per year increase in this area based on the \$24 million level.

## Dept. of Correctional Services

Most of the request from the Dept. of Correctional Services did not fall under the category of continuation budget items as it largely related to additional staffing. However, this projected budget includes a reallocation of monies originally scheduled to expire relating to the temporary use of county jail facilities. This allowed for funding the first three priority areas and partial funding of the protective services and construction staffing issue.

The agency request and projected budget do not include any increased funding for inmate operations and health care per diem costs or utilities. However, there also are no reductions based on the annualized funding of LB605 Justice Reinvestment Act which expands the use of probation in lieu of incarceration.

The projected budget shown here also does not include any salary enhancements other than the general 2.5% per year increase built into all budgets.

<u>Description</u>	<u>Agency Request</u>		<u>TRR Nov 2014 Meeting</u>	
	<u>FY2017-18</u>	<u>FY2018-19</u>	<u>FY2017-18</u>	<u>FY2018-19</u>
Critical Under Resourced Issues (County Jail program)	(4,607,147)	(4,607,147)	(4,607,147)	(4,607,147)
Critical Under Resourced Issues	959,775	970,712	959,775	970,712
Information Technology and Radios	741,580	740,950	741,580	740,950
Education and cognitive programs (Evidence Based Practice)	574,223	691,667	574,223	691,667
Health Services and staffing	701,034	508,941	701,034	508,941
Protective Service and Construction Staffing	3,190,484	8,072,345	1,630,535	1,694,877
One Time Cash Appropriation Increase	(1,000,000)	0	0	0
Inmate per diem costs	0	0	0	0
Salary enhancements (\$ above 2.5%)	0	0	0	0
Subtotal - Issues	559,949	6,377,468	0	0
Salary increase	2,742,278	5,704,174	2,720,846	5,506,992
Health Insurance increase	1,550,281	3,224,582	1,518,568	3,158,621
Total Increases	4,852,508	15,306,224	4,239,414	8,665,613

## University and State College General Increases

In the past several biennium, a general overall budget increase has been provided to the University of Nebraska and State Colleges. In the projected budget, these general increases are included at a level to cover estimates of salary and health insurance increased costs. For salary, a 2.5% increase was included similar to state agencies. For health insurance, in the absence of actual numbers, these calculations use the agency request for the State Colleges (8% per year) and University of Nebraska (10% per year).

The only other item included is a \$3 million increase in the University of Nebraska to provide a total of \$5,000,000 General Funds for the operation and maintenance of the Global Center for Advanced Interprofessional Learning at the University of Nebraska Medical Center. Intent language to fund at this level was included in LB956 enacted in 2016.

## Defined Benefit Retirement Plans

The agency request for FY18 and FY19 reflects a substantial increase in state support for the defined benefit retirement systems. Overall the increase amounts to \$16.7 million in FY17-18 and \$18.1 million in FY18-19 based on existing law. The requested amounts are estimates from the actuaries as to what the funding needs might be. Final funding needs will be communicated in November 2016 following completion of the actuarial experience study and valuations.

	Base Yr	Biennial Budget		Increase - Biennial Basis	
	FY2016-17	FY2017-18	FY2018-19	FY2017-18	FY2018-19
2% of Salary - Omaha	6,660,783	6,927,214	6,937,871	266,431	277,088
Additional Contribution - Patrol	2,725,738	6,500,000	6,600,000	3,774,262	3,874,262
Additional Contribution - Schools	0	9,500,000	9,700,000	9,500,000	9,700,000
Additional Contribution - Judges	0	2,500,000	2,000,000	2,500,000	2,000,000
Omaha Service Annuity	997,118	1,037,003	1,038,598	39,885	41,480
2% of Salary for State Schools	36,919,600	37,592,718	39,096,427	673,118	2,176,827
Total	47,303,239	64,056,935	65,372,896	16,753,696	18,069,657

## Operations Inflation

The FY18/FY19 agency budget requests included no requests for increased funding for inflationary operating increases at the DHHS 24 hour/7 days per week institutions or correctional facilities. For the FY18/FY19 biennium, the projected status includes a small amount for DAS rate charges in a variety of agencies.

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## Capital Construction

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General Fund dollars included in the projected budget for capital construction reflect reaffirmations only based on the FY18/FY19 biennial budget. These are dollar amounts needed to complete funding of previously approved projects. Nothing is included for new projects in FY18 or FY19.

## Appendix A

### Historical Variance, Projected vs Actual General Fund Receipts

Millions of \$	Projected Sine Die	Actual Receipts	\$ Variance	% Variance	
				Negative	Positive
FY 1986-87	878.0	886.4	8.4		1.0%
FY 1987-88	924.3	1,016.3	92.0		10.0%
FY 1988-89	988.4	1,133.5	145.1		14.7%
FY 1989-90	1,110.9	1,152.7	41.8		3.8%
FY 1990-91	1,334.6	1,367.1	32.5		2.4%
FY 1991-92	1,493.2	1,490.4	(2.8)	-0.2%	
FY 1992-93	1,537.3	1,524.7	(12.6)	-0.8%	
FY 1993-94	1,662.5	1,653.7	(8.8)	-0.5%	
FY 1994-95	1,729.9	1,706.0	(23.9)	-1.4%	
FY 1995-96	1,834.3	1,836.7	2.4		0.1%
FY 1996-97	1,918.0	2,009.6	91.6		4.8%
FY 1997-98	1,993.8	2,105.4	111.6		5.6%
FY 1998-99	2,102.9	2,123.9	21.0		1.0%
FY 1999-00	2,326.3	2,403.9	77.6		3.3%
FY 2000-01	2,484.3	2,456.8	(27.5)	-1.1%	
FY 2001-02	2,646.0	2,365.5	(280.5)	-10.6%	
FY 2002-03	2,725.7	2,456.4	(269.3)	-9.9%	
FY 2003-04	2,732.0	2,718.7	(13.3)	-0.5%	
FY 2004-05	2,775.5	3,037.2	261.7		9.4%
FY 2005-06	3,092.3	3,352.2	259.9		8.4%
FY 2006-07	3,217.0	3,408.3	191.4		5.9%
FY 2007-08	3,389.2	3,506.1	116.9		3.5%
FY2008-09	3,531.7	3,357.5	(174.3)	-4.9%	
FY2009-10	3,446.7	3,204.7	(242.0)	-7.0%	
FY2010-11	3,422.2	3,499.7	77.4		2.3%
FY2011-12	3,591.1	3,695.9	104.8		2.9%
FY2012-13	3,767.1	4,052.4	285.3		7.6%
FY2013-14	4,020.7	4,117.40	96.7		2.4%
FY2014-15	4,220.5	4,305.1	84.6		2.0%
FY2015-16	4,481.9	4,308.0	(173.9)	-3.9%	
FY2016-17 est	4,580.1	4,395.0	(185.1)	-4.0%	
FY2017-18 est	4,738.3	4,538.0	(200.3)	-4.2%	
FY2018-19 est	4,932.5	4,730.0	(202.5)	-4.1%	
Avg Variance				-4.3%	4.5%

## Appendix B

### Projected Budget – November 2016 TRR Meeting

	w/o Deficits FY2016-17	Nov 2016 TRR Estimate		Change over Prior Yr		Change over Prior Yr		2 Yr Avg % Change
		Total	Total	FY17-18 (w/o deficits)		FY18-19 (w/o deficits)		
		FY2017-18	FY2018-19	\$	%	\$	%	
<b><u>Agency Operations</u></b>								
University/Colleges	635,472,980	664,111,355	691,388,493	28,638,375	4.5%	27,277,138	4.1%	4.3%
Health & Human Services System	262,140,415	267,680,805	273,047,307	5,540,390	2.1%	5,366,502	2.0%	2.1%
Correctional Services	204,158,501	208,397,915	212,824,114	4,239,414	2.1%	4,426,199	2.1%	2.1%
Courts	179,806,832	188,124,708	195,103,626	8,317,876	4.6%	6,978,918	3.7%	4.2%
State Patrol	60,113,441	61,473,491	62,984,975	1,360,050	2.3%	1,511,484	2.5%	2.4%
Revenue	27,551,068	28,290,879	28,908,937	739,811	2.7%	618,058	2.2%	2.4%
Retirement Board	47,303,239	64,056,935	65,372,896	16,753,696	35.4%	1,315,961	2.1%	17.6%
Other 40 Agencies	164,113,227	167,050,754	170,864,736	2,937,527	1.8%	3,813,982	2.3%	2.0%
<b>Total-GF Operations</b>	<b>1,580,659,703</b>	<b>1,649,186,842</b>	<b>1,700,495,084</b>	<b>68,527,139</b>	<b>4.3%</b>	<b>51,308,242</b>	<b>3.1%</b>	<b>3.7%</b>
<b><u>State Aid to Individuals/Others</u></b>								
Medicaid	850,259,344	889,105,431	923,934,274	38,846,087	4.6%	34,828,843	3.9%	4.2%
Child Welfare Aid	160,193,618	171,848,362	175,046,539	11,654,744	7.3%	3,198,177	1.9%	4.5%
Public Assistance	108,094,067	115,922,126	116,643,076	7,828,059	7.2%	720,950	0.6%	3.9%
Developmental disabilities aid	150,667,981	154,181,933	159,229,362	3,513,952	2.3%	5,047,429	3.3%	2.8%
Behavioral Health aid	73,844,769	75,521,664	77,032,098	1,676,895	2.3%	1,510,434	2.0%	2.1%
Childrens Health Insurance (SCHIP)	6,440,394	6,448,465	6,716,525	8,071	0.1%	268,060	4.2%	2.1%
Aging Programs	10,449,701	10,449,701	9,845,789	0	0.0%	(603,912)	-5.8%	-2.9%
Higher Ed Student Aid programs	7,853,156	7,853,156	7,853,156	0	0.0%	0	0.0%	0.0%
Public Health Aid	6,917,612	6,917,612	6,917,612	0	0.0%	0	0.0%	0.0%
Business Innovation Act	6,760,000	6,760,000	6,760,000	0	0.0%	0	0.0%	0.0%
Community health centers	5,783,060	5,783,060	5,783,060	0	0.0%	0	0.0%	0.0%
All Other Aid to Individuals/Other	11,256,968	11,256,968	11,256,968	0	0.0%	0	0.0%	0.0%
<b>Total-GF Aid to Individuals/Other</b>	<b>1,398,520,670</b>	<b>1,462,048,478</b>	<b>1,507,018,459</b>	<b>63,527,808</b>	<b>4.5%</b>	<b>44,969,981</b>	<b>3.1%</b>	<b>3.8%</b>
<b><u>State Aid to Local Govts</u></b>								
State Aid to Schools (TEEOSA)	952,153,581	1,002,157,907	1,060,655,620	50,004,326	5.3%	58,497,713	5.8%	5.5%
Special Education	222,063,117	227,614,695	233,305,062	5,551,578	2.5%	5,690,367	2.5%	2.5%
Property Tax Credit Transfer				--	--	--	--	--
Aid to Community Colleges	100,828,308	104,357,299	108,009,804	3,528,991	3.5%	3,652,505	3.5%	3.5%
Homestead Exemption	72,515,000	74,800,000	76,900,000	2,285,000	3.2%	2,100,000	2.8%	3.0%
Personal Property Tax Relief Act	19,600,000	16,000,000	17,000,000	(3,600,000)	--	1,000,000	100.0%	-6.9%
Aid to ESU's	14,051,761	14,403,055	14,763,131	351,294	2.5%	360,076	2.5%	2.5%
Early Childhood programs	8,770,164	8,770,164	8,770,164	0	0.0%	0	0.0%	0.0%
Community Based Juvenile Services	6,300,000	6,300,000	6,300,000	0	0.0%	0	0.0%	0.0%
Resources Development Fund	3,140,325	3,140,325	3,140,325	0	0.0%	0	0.0%	0.0%
Other Aid to Local Govt	8,506,246	8,506,246	8,506,246	0	0.0%	0	0.0%	0.0%
<b>Total-GF Aid to Local Govt</b>	<b>1,410,271,464</b>	<b>1,468,392,653</b>	<b>1,539,693,314</b>	<b>58,121,189</b>	<b>4.1%</b>	<b>71,300,661</b>	<b>4.9%</b>	<b>4.5%</b>
<b><u>Capital Construction</u></b>								
	22,239,000	31,768,333	30,966,526	9,529,333	42.8%	(801,807)	-2.5%	18.0%
<b><u>Total Appropriations</u></b>								
	4,411,690,837	4,611,396,306	4,778,173,383	199,705,469	4.5%	166,777,077	3.6%	4.1%

## Appendix C FY2016-17 Deficit Requests (General Fund)

#	Agency	Issue	Fund	Type	\$ Amount
13	Education	Nebraska Career Connections	Gen	Oper	215,000
13	Education	TEEOSA Aid; revised Insurance Premium tax	Gen	Aid	0
14	PSC	Increase to Commissioners' expenses, new commissioner	Gen	Oper	9,758
16	Revenue	Homestead exemption deficit	Gen	Aid	0
16	Revenue	Personal Property Tax Relief Act deficit	Gen	Aid	0
25	DHHS	Medicare Prescription Drug Clawback in Medicaid	Gen	Aid	5,263,256
25	DHHS	Medicare Part B Premium Increase	Gen	Aid	4,646,288
25	DHHS	Nebraska Families Collaborative	Gen	Aid	7,803,559
35	Liquor Control	Retirement payouts (also \$47,688 PSL)	Gen	Oper	54,913
35	Liquor Control	Computer programming, new license type LB 1105 (2016)	Gen	Oper	5,000
50	State Colleges	Fed Fair Labor Standards Act regulations (also \$150,586 PSL)	Gen	Oper	206,752
54	Hist Society	Retirement payouts (also \$137,755 PSL)	Gen	Oper	157,276
65	DAS	State Claims (LB xxx)	Gen	Oper	0
Total		Operations	Gen	Oper	648,699
		State Aid	Gen	Aid	17,713,103
		Construction	Gen	Const	0
		Total General Fund Deficits	Gen	Total	18,361,802



## **Appendix D**

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

#### **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