

APPROPRIATIONS COMMITTEE PRELIMINARY REPORT



FEBRUARY 2016

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Overview

This report provides a projection of the state's General Fund financial picture for the current biennial budget, FY2015-16 and FY2016-17, and the following biennium, FY2017-18 and FY2018-19. The report aims to assist the Legislature with its fiscal planning as it begins to consider 2015 revenue and spending adjustments.

The projections for the current biennium incorporate (1) the October 2015 revenue forecasts of the Nebraska Economic Forecasting Advisory Board, (2) appropriations as enacted in the 2015 legislative session, and (3) the Appropriations Committee preliminary budget adjustments.

The projections for the following biennium incorporate revenue forecasts based on a historical average methodology as calculated by the Legislative Fiscal Office (see page 10), projected budget increases based on historical average increases and formula driven estimates for specific areas, and the annualized and on-going impacts of actions taken in the 2015 legislative session and the Committee Preliminary budget. All such estimates are based on existing law in particular the TEEOSA school aid formula.

Note that the Nebraska Economic Forecast Advisory Board (NEFAB) is scheduled to meet February 26, 2016 to review their existing forecasts. Changes in those forecasts could have an impact on the projected status as shown in this report.

General Fund Financial Status

Overall the financial status for the current biennium (FY16 / FY17) remains relatively unchanged as compared to Sine Die of the 2015 Legislative Session. At Sine Die, the variance from the minimum General Fund reserve (commonly referred to as the surplus or shortfall) was estimated to be \$2.3 million while the current financial status is \$1.4 million. However, there have been a large number changes, both positive and negative, to return to a comparable result.

November Tax Rate Review Committee

The projected status went from a positive \$2.3 million to a negative \$110 million from the end of the 2015 session to the November meeting of the Tax Rate Review (TRR) Committee. The cause of this decline was a \$154 million reduction in revenue forecasts at the October meeting of the Nebraska Economic Forecast Advisory Board (NEFAB). This was partially offset by a \$45 million lapse of unexpended FY15 appropriations. At that time agency requests for Midbiennium budget adjustments were incorporated into the status (\$22.2 million total) which was mostly offset by a lower estimate of FY16-17 TEEOSA school aid (\$19.3 million).

Appropriations Committee Preliminary Budget

The projected status went from a negative \$110 million at the November meeting of the TRR Committee to the current positive \$1.4 million per the Appropriations Committee preliminary budget. In terms of dollar amounts, the committee preliminary budget (including the allocation for post hearing adjustments) is very close to the estimate at the November TRR committee meeting except for TEEOSA school aid. The lower TEEOSA estimate in November was short lived as a second revision to the TEEOSA aid estimate restored \$15.2 million of costs. The

Changes in the Financial Status – Current Biennium				
Millions of Dollars	FY15	FY16	FY17	Total
Variance - Sine Die 2015	0.0	0.0	0.0	2.3
Change in actual /revised forecasts	10.1	(70.9)	(83.4)	(144.2)
Above forecast receipts to Cash Reserve	0.0	(10.1)	0.0	(10.1)
Lapse FY15 reappropriations	0.0	45.3	0.0	45.3
Midbiennium Changes (agency requests)	0.0	(3.2)	(19.0)	(22.2)
TEEOSA School Aid revisions (Oct meeting)	0.0	0.0	19.3	19.3
Exclude allocation for deficits	0.0	5.0	0.0	5.0
Change in reserve, accounting adjustment	1.3	0.0	(6.9)	(5.6)
Variance - Nov 2015 TRR Committee				(110.2)
Prelim vs Nov TRR (Agencies)	0.0	(1.6)	15.5	13.9
Prelim vs Nov TRR (Post Hearing allocation)	0.0	(3.0)	(12.0)	(15.0)
Prelim vs Nov TRR (TEEOSA)	0.0	0.0	(15.2)	(15.2)
Additional lapse of FY15 reappropriations	0.0	98.9	0.0	98.9
State Claims	0.0	(0.4)	0.0	(0.4)
General Fund Transfers-in	0.0	8.0	8.0	16.0
Cash Reserve transfer (TEEOSA above Gov)	0.0	0.0	14.2	14.2
Change in Minimum Reserve	0.0	0.0	(0.9)	(0.9)
Variance - Committee Preliminary Budget				1.4
For expenditure items, a positive number indicates lower expenditures which are a positive addition to the variance from the minimum reserve.				

positive financial status was then obtained with \$98.9 million of lapsed reappropriations in DHHS aid programs, an additional \$16 million of cash fund transfers, and a \$14.2 million transfer from the Cash Reserve Fund. The latter was to cover the higher TEEOSA aid estimate that had not been included in the Governors recommendation.

The Committee did not fund any specific item requested by the Department of Correctional Services (DCS) pending review during agency hearing.

However, the financial status recognizes the dollar amount that had been included in the Governors recommendation for DCS but under the category “Allocation for post hearing adjustment”,

Following Biennium

The projected financial status for the following biennium shows a \$126 million shortfall. Revenue growth in the next biennium is projected at 4.9% per year average using the capped historical average methodology (see page 10). This methodology is used in the absence of an official forecast. This is just slightly above the historical average in light of the 3.6% average of the preceding two years.

Calculation of the projected budget for the following biennium is shown in Appendix C. The projected budget increases are based on historical increases for specific areas and existing law in particular the TEEOSA school aid formula. The net result of the item by item calculation is an overall spending growth of 4.4% in FY17-18, 4.2% in FY18-19 for a two year average of 4.3%. These calculations do not include the annualized impacts of 2016 budget actions which are shown separately on the financial status.

Available for Legislative Bills

The current financial status (with the Committee preliminary budget adjustments and allocation for post hearing adjustments) yields a projected balance that is only \$1.4 million above the minimum reserve for the current biennium. For the following biennium the projected balance is \$126.6 million **below** the minimum reserve based on estimated revenue and spending levels

noted above and discussed elsewhere in this report. These amounts constitute what is available for A bills or revenue reduction bills.

Cash Reserve Fund

Entering the 2016 legislative session, the unobligated balance in the Cash Reserve Fund is currently projected at \$708.2 million at the end of the five year financial status. This reflects a current balance of \$728.6 million less \$20.4 million scheduled to be transferred for the State Capitol HVAC project in FY19, FY21 and FY23

The Committee Preliminary budget includes a \$14.2 million transfer to the General Fund. This covers the amount of TEEOSA aid in the latest estimate as compared to the amount included in the Governors recommendation which was based on the November estimate provided by the Dept. of Education per Section 79-1031.

Not included at this time is the Governors recommendation of a \$26,275,558 transfer to the Nebraska Capital Construction Fund (NCCF) to cover the costs of a new 160 bed addition at the Community Corrections Center in Lincoln.

The relatively high balance in the Cash Reserve Fund (CRF) raises the question as to whether this balance too high and should be reduced and if so in what manner and by how much? A more detailed discussion of this issue and an analysis to quantify a dollar level is provided on page 8.

Mid-Biennium Appropriation Changes

Over the two year period, the Appropriations Committee preliminary budget adjustments increases appropriations by \$4.1 million. This consists of \$22.1 million of increased appropriations and \$17.4 million of reductions. Of the significant increases, \$11.3 million is to cover a reimbursement of federal funds due to implementation of a developmental disability rate methodology waiver prior to federal approval.

Of the significant reductions, \$4.6 million is due to an increase in the federal Medicaid match rate, \$4.1 million due to higher than estimated Insurance Premium tax money to offset TEEOSA state aid General Fund amounts, and \$4.1 million relates to reducing FY17 funding for TEEOSA from the estimated level included in the budget last spring to the level that would be certified under current law.

The committee also includes an allocation for post hearing adjustments totaling \$15 million. This amount approximates the dollar amount that the Governor included in his recommendation for various corrections related issues (\$3 million in FY16, \$12 million in FY17). *The committee did not make any specific recommendation regarding these items pending review during the agency hearing but wanted to leave a similar dollar amount for subsequent consideration.*

The committee also includes a \$98.2 million lapse of FY15 reappropriated funds, all in DHHS aid programs. Last session the unexpended balances from prior year appropriations were reappropriated. A subsequent review of year to date expenditures indicates that these amounts would not be needed at this time to cover known obligations.

<u>Committee Preliminary Budget Adjustments (Gen Fund)</u>	<u>FY2015-16</u>	<u>FY2016-17</u>	<u>2 Yr Total</u>
Significant Increases	13,622,254	8,431,896	22,054,150
Significant Reductions	(8,611,963)	(8,764,122)	(17,376,085)
All Other	(260,133)	(274,972)	(535,105)
Total Committee Preliminary (specific items)	4,750,158	(607,198)	4,142,960
Allocation for Post Hearing Adjustments	3,000,000	12,000,000	15,000,000
Total General Funds per Financial Status	7,750,158	11,392,802	19,142,960

Difference Between the Committee and Governor

With respect to adjustments to the previously enacted appropriations for the current biennium, the Appropriations Committee proposed changes are \$10.2 million above the Governors recommendation over the two year period or \$25.2 million when including the allocation for post hearing adjustments.

Of this amount, \$11.3 million relates to funding of the developmental disability waiver reimbursement which was funded by both the Governor and Appropriations Committee but in a different manner. The Governor funded this by shifting reappropriations from Medicaid to the Developmental Disability program while the Committee lapsed the \$11.3 million reappropriation and then directly funded the \$11.3 million deficit with new appropriations.

The largest difference in dollars is in TEEOSA aid. The Governor funded TEEOSA at the November estimated level pursuant to Section 79-1031. Since that November estimate new data has become available, mostly the FY2014-15 Annual Financial Report, which has subsequently increased the estimated amount. The new estimate will very likely be the amount that will be certified on or before March 1 and is \$14.2 million higher than the Governors recommendation.

<u>Differences: Committee and Governor</u>	<u>FY2015-16</u>	<u>FY2016-17</u>	<u>Two Yr Total</u>
Governors recommendation	(3,384,730)	(2,709,558)	(6,094,288)
Committee Preliminary	4,750,158	(607,198)	4,142,960
Difference in Specific Items	8,134,888	2,102,360	10,237,248
Allocation for Post Hearing Adjustments	3,000,000	12,000,000	15,000,000
Difference with Post Hearing Allocation	11,134,888	14,102,360	25,237,248
Major Differences by Item			
TEEOSA state aid (NDE Nov letter versus current estimate)	0	14,153,581	14,153,581
Developmental disability aid, waiver reimbursement	11,340,542	0	11,340,542
All Corrections issues (medical, utilities, county jail program, etc)	(2,937,667)	(11,950,337)	(14,888,004)
All Other (net)	(267,987)	(100,884)	(368,871)
Difference in Specific Items	8,134,888	2,102,360	10,237,248
Allocation for Post Hearing Adjustments	3,000,000	12,000,000	15,000,000
Difference in General Fund adjustments	11,134,888	14,102,360	25,237,248

General Fund Financial Status

Appropriations Committee Preliminary Budget

	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	316,194,807	269,646,325	204,696,704
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
5 Lapse FY14 and FY15 reappropriations	0	98,921,816	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	402,707,269	311,194,807	264,646,325	199,696,704
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)
12 Cash Reserve transfers (current law)	67,701,112	0	0	0	0
13 2016 Cash Reserve transfers	0	0	14,200,000	0	0
14 2016 General Fund transfers-out	0	0	0	0	0
15 2016 General Fund transfers-in	0	8,000,000	8,000,000	0	0
16 2016 Revenue Bills	0	0	0	0	0
17 General Fund Net Revenues	4,185,715,233	4,193,400,000	4,367,100,000	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 Committee Prelim - Midbiennium Adjustme	--	4,750,158	(607,198)	(16,309,928)	(16,082,306)
22 Allocation for Post Hearing Adjustments	0	3,000,000	12,000,000	12,000,000	12,000,000
23 2016 State Claims	0	358,435	0	0	0
24 2016 "A" Bills	0	0	0	0	0
25 General Fund Appropriations	4,030,404,308	4,279,912,462	4,408,648,482	4,586,151,621	4,780,877,466
26 ENDING BALANCE					
27 Dollar ending balance (per Financial Status)	732,273,130	316,194,807	269,646,325	204,696,704	150,930,238
28 Dollar ending balance (at Minimum Reserve)			268,199,231		277,513,378
29 Excess (shortfall) from Minimum Reserve			1,447,094		(126,583,140)
30 Biennial Reserve (%)			3.0%		1.6%
<u>General Fund Appropriations</u>					
31 Annual % Change - Appropriations (w/o deficits)	7.0%	4.0%	3.2%	4.0%	4.2%
32 Two Year Average	6.3%	--	3.6%	--	4.1%
<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%
36 <u>On-Going Revenues vs Appropriations</u>	87,609,813	(86,512,462)	(55,748,482)	(59,949,621)	(48,766,466)

CASH RESERVE FUND	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Beginning Balance	719,065,306	727,835,426	728,615,207	714,415,207	714,415,207
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)
To Republican River Compact Litigation Conting	(5,500,000)	0	0	0	0
To Oral Health Training and Services Fund	0	(8,000,000)	0	0	0
2016 Session - To General Fund	0	0	(14,200,000)	0	0
2016 Session - To NCCF	0	0	0	0	0
Projected Unobligated Ending Balance	727,835,426	728,615,207	714,415,207	714,415,207	693,978,493

Cash Reserve Fund

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

Under current law, the Cash Reserve Fund unobligated balance was projected at \$728.6 million at the end of the current FY16/FY17 biennium but \$708.2 million when all future statutory transfers are accounted for. Each of these levels are reduced by \$14.2 million when taking into consideration the Appropriations Committee preliminary budget.

The Appropriations Committee preliminary budget includes a \$14.2 million transfer which is the amount that the latest FY2016-17 TEEOSA school aid estimate exceeds the Governors recommendation.

The Governors recommendation contained two transfers: (1) \$26,275,558 to the Nebraska Capital Construction Fund (NCCF) for repair and restoration at the Tecumseh Correctional Institution and a new Lincoln Community Corrections Center housing unit, and (2) \$150 million transfer to a new Transportation Infrastructure Bank (LB960). The Committee preliminary budget does not contain either of these transfers at this time.

Table 1 Cash Reserve Fund

	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	714,415,207	714,415,207
Excess of certified forecasts	96,721,233	84,599,532	0	0	0
To General 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)
To Republican River Litigation Fund	(5,500,000)	0	0	0	0
To Oral Health Services & Training	0	0	0	0	0
2016 - To General Fund	0	0	(14,200,000)	0	0
2016 - To NCCF	0	0	0	0	0
Ending Balance	727,835,426	728,615,207	714,415,207	714,415,207	693,978,493

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. The \$96,721,233 million in FY2014-15 reflects the amount that the FY2013-14 actual receipts the certified level. The \$84,599,532 transfer in FY2015-16 reflects the amount the FY2014-15 actual receipts were above 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.

In 2014, the Legislature enacted a \$50.5 million transfer to the General Fund in LB130 to cover a series of one-time items as shown below.

<u>Related Item</u>	<u>\$ Amount</u>	<u>Transfer</u>
DCS- temporary housing, county jails	4,950,229	
Natural Resources-Resources Development Fund	10,492,793	
Water Sustainability Fund-(one-time portion)	10,000,000	
Game & Parks Improvement and Maintenance Fund	15,000,000	
Job Training Cash Fund	10,000,000	
<i>Total: 2014 Transfer to General Fund</i>	50,443,022	50,500,000

In the 2015 Session, \$17,701,112 was transferred to the General Fund to cover payment of IV-E disallowance penalties imposed on the Dept. of Health and Human Services,

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 FY15-16 since the actual transfer has not yet been made.

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

In the 2015 session, the enacted budget contained the following utilizes a total of \$83.9 million of Cash Reserve Fund monies. This includes: (1) \$5.5 million transfer to the Republican River Compact Litigation Contingency Cash Fund to pay a court ordered settlement related to the Kansas v. Nebraska Republican River Compact, (2) \$8 million to a new cash fund in the Coordinating Commission to contract for reduced-fee and charitable oral health services, oral health workforce development, and oral health services using telehealth, (3) \$25 million transfer to the Nebraska Capital Construction Fund for construction of the Global Center for Advanced Interprofessional Learning, and (4) \$28.2 million to the NCCF for the State Capitol HVAC project. This includes \$7,804,292 in FY2015-16, \$7,160,412 in FY2018-19, \$9,492,568 in FY2020-21, and \$3,783,734 in FY2022-23

<u>Transfers to NCCF, Related Project</u>	<u>FY2014-15</u>	<u>FY2015-16</u>	<u>FY2016-17</u>	<u>FY2017-18</u>	<u>Future Yrs</u>
Central Nebraska Veterans Home	0	43,015,459	0	0	0
State Capitol HVAC systems	12,000,000	7,804,292	0	0	20,436,714
State Capitol Fountains	2,500,000	0	0	0	0
Global Center Advanced Learning	0	25,000,000	0	0	0
Transfers to NCCF	14,500,000	75,819,751	0	0	20,436,714

Analysis of the Level of Cash Reserve Fund Balance

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.

Table 2 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%
FY2014-15t	4,220.5	4,305.1	84.6		2.0%
FY2015-16 est	4,473.9	4,403.0	(70.9)	-1.6%	
FY2016-17 est	4,645.4	4,562.0	(83.4)	-1.8%	
FY2017-18 est	4,790.5	4,742.5	(48.0)	-1.0%	
FY2018-19 est	4,948.4	4,948.4	0.0		
Avg Variance				-4.4%	4.7%

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 2). 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 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 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 variables 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.

General Fund Revenues

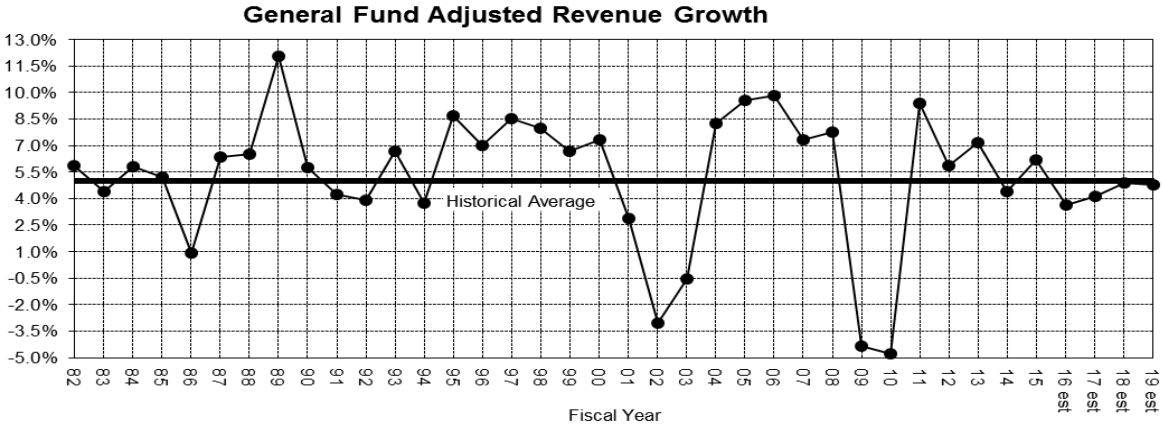
Revenue Forecasts

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 34 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 3 - 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%	--	4.7%



General Fund Transfers-Out

General Fund Transfers-Out accounts for funds that are transferred from the General Fund to another fund within the state treasury. These items have the same effect as an appropriation but are not expended from the General Fund as such and therefore are shown under the revenue category as transfers-out from the General Fund and subsequently expended from the receiving fund.

The Appropriations Committee preliminary budget does not include any changes from those previously enacted during the 2013 legislative session

Table 4 General Fund Transfers-Out

Excludes CRF Transfers	Actual	Current Biennial Budget		Following Biennium	
	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Property Tax Credit Fund	(138,000,000)	(202,000,000)	(202,000,000)	(202,000,000)	(202,000,000)
Water Resources Cash Fund	(3,300,000)	(3,300,000)	(3,300,000)	(3,300,000)	(3,300,000)
Cultural Preservation Endowment	(500,000)	(750,000)	(750,000)	0	0
Water Sustainability Fund	(21,000,000)	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)
Victim's Compensation Fund	0	(50,000)	(50,000)	0	0
Clean-burning Motor Fuel (LB581-2015)	0	(500,000)	0	0	0
Game & Parks Improve & Maint.	(15,000,000)	0	0	0	0
Job Training Cash Fund	(10,000,000)	0	0	0	0
Legal Ed Pub Srvc/Rural Practice	(500,000)	0	0	0	0
High Growth Business Develop Fund	(50,000)	0	0	0	0
<i>General Fund Transfers-Out (current law)</i>	<i>(188,350,000)</i>	<i>(217,600,000)</i>	<i>(217,100,000)</i>	<i>(216,300,000)</i>	<i>(216,300,000)</i>
2016 Session Transfers-Out	0	0	0	0	0
<i>Total-General Fund Transfers-Out</i>	<i>(188,350,000)</i>	<i>(217,600,000)</i>	<i>(217,100,000)</i>	<i>(216,300,000)</i>	<i>(216,300,000)</i>

General Fund Transfers-In

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

The Appropriations Committee preliminary budget includes several additional transfers. The Governor had recommended the transfer of an additional \$6,000,000 each year from the Securities Act Cash and \$2,000,000 each year from the Dept. of Insurance Cash Fund. The Committee concurred with this recommendation.

Table 5 General Fund Transfers-In

	Actual	Current Biennial Budget		Following Biennium	
	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
Securities Act Cash Fund	21,000,000	24,000,000	24,000,000	0	0
Tobacco Products Admin Cash Fund	10,000,000	13,000,000	10,000,000	0	0
Dept of Insurance Cash Fund	6,000,000	6,250,000	6,250,000	0	0
Charitable Gaming Oper Fund	0	2,000,000	0	0	0
Dept of Motor Vehicles Ignition Interlock Fund	200,000	200,000	200,000	0	0
Collection Agency Cash Fund	0	200,000	0	0	0
Waste Reduction and /Recycling Incentive Fund	0	1,000,000	0	0	0
Resource Recovery Cash Fund	0	200,000	0	0	0
Metropolitan Class Development Fund	0	147,000	0	0	0
Primary Class Development Fund	0	98,000	0	0	0
Convention Center Support Fund	0	150,000	0	0	0
Severance Tax Admin Cash Fund	0	150,000	150,000	0	0
Job Training Cash Fund	0	250,000	250,000	0	0
Medicaid False Claims Cash Fund	6,800,000	0	0	0	0
<i>Transfers-In Already in forecast</i>	44,000,000	47,645,000	40,850,000	0	0
Securities Act Cash Fund	0	6,000,000	6,000,000	0	0
Dept of Insurance Cash Fund	0	2,000,000	2,000,000	0	0
<i>General Fund Transfers-In - 2016</i>	0	8,000,000	8,000,000	0	0
<i>Total General Fund Transfers-In</i>	44,000,000	55,645,000	48,850,000	0	0

General Fund Appropriations - Current Biennium

The financial status shown includes the Appropriations Committee preliminary recommendation for current year deficits (FY2015-16) and adjustments for FY2016-17, the second year of the biennial budget.

Committee Preliminary Adjustments – General Funds	FY2015-16	FY2016-17	2 Yr Total
DHHS-Develop disability aid, rate methodology waiver reimbursement	11,340,542	0	11,340,542
DHHS-Managed care enrollment broker	0	3,445,925	3,445,925
DHHS-State Ward Permanency Pilot, costs and waiver reimburse	1,373,812	500,000	1,873,812
Revenue-Homestead Exemption (at current law)	600,000	1,200,000	1,800,000
DHHS-Alleviate court ordered wait list, Lincoln Regional Center	0	1,061,232	1,061,232
Attorney Gen-Ongoing water litigation costs	307,900	721,500	1,029,400
Defined benefit retirement plans	0	903,239	903,239
DHHS-AccessNebraska call center funding shift	0	600,000	600,000
DHHS-Higher FFY2017 FMAP	0	(4,674,690)	(4,674,690)
DHHS-One time reduction based on spending estimate (SCHIP)	(4,500,000)	0	(4,500,000)
Education-TEEOSA state aid, insurance premium tax adjustment	(4,111,963)	0	(4,111,963)
Education-TEEOSA state aid, to NDE calculated per current law	0	(4,089,432)	(4,089,432)
All Other (net)	(260,133)	(274,972)	(535,105)
Subtotal – Specific Items	4,750,158	(607,198)	4,142,960
Allocation for Post Hearing Adjustments	3,000,000	12,000,000	15,000,000
Total General Fund - New Appropriations	7,750,158	11,392,802	19,142,960
Total General Fund – Lapse of Reappropriations			(98,921,816)

Developmental disability aid, rate methodology waiver reimbursement (DHHS)

The Centers for Medicare & Medicaid Services (CMS) did not approve the state's request to amend the waiver for services for adults with developmental disabilities until July 7, 2015. The amendment allows a new rate methodology to go into effect.

DHHS paid the new higher methodology rates beginning in FY2014-15. Since the federal government did not approve the waiver until FY2015-2016, the state will have to pay the federal government back its share of funds that were reimbursed for services which amounts to about \$13.8 million in FY15 and \$5.8 million in FY16. Existing general funds cover some of the payback, but an additional \$11.3 million of general funds is needed to cover all current year obligations for developmental disability services.

This amount was funded by both the Governor and Appropriations Committee but in a different manner. The Governor funded this by shifting reappropriations from Medicaid to the Developmental Disability program while the Committee lapsed the \$11.3 million reappropriation and then directly funded the \$11.3 million deficit with new appropriations.

Managed care enrollment broker (DHHS)

The managed care enrollment broker contract will provide services to Medicaid members enrolling in a managed care plan. The broker provides a web application and offers a call center to assist Medicaid members in plan selection, primary care provider selection and assists members with disenrollment and changing of plans. The enrollment broker provides real time data exchange with the Medicaid eligibility system and the managed care companies. The enrollment broker is responsible for providing counseling services, auto-enrolling members if a plan is not selected, capitation payment work and providing information on managed care plans and health care providers.

Managed care enrollment services are a federal requirement. Recent policy changes have necessitated the need for increased automation and online services around this function. The information system components match rates range from 75% to 90%. The ongoing operations is reimbursable at 50% match rate. Currently, only 33% of Medicaid members are selecting a managed health care plan utilizing the current enrollment broker contract. Enrollment support services are provided by telephone only. The new contract will provide additional methods to enroll such as online.

Homestead Exemption (Revenue)

In the 2015 legislative session, funding for homestead exemption reimbursement was estimated and budgeted at \$71.0 million for FY2015-16 and \$71.3 million for FY2016-17. Actual tax losses certified by the counties for the current fiscal year (FY2015-16) total \$71,588,956 requiring additional funding of \$600,000. Because the FY2015-16 amount was increased, the Department of Revenue has increased their FY2016-17 estimate of funding needs by \$1,200,000.

Alleviate Court Ordered Wait List, Lincoln Regional Center (DHHS)

DHHS requested funding for 14.0 additional staff to address the waiting list of persons ordered by the court to be committed to the Lincoln Regional Center (LRC). Individuals are court-ordered to LRC for competency evaluations, competency restoration and when found Not Responsible by Reason of Insanity.

The court ordered wait list for commitments to the LRC began increasing in calendar year 2014. DHHS met with the Court Administrator to identify strategies to decrease the court ordered wait list which reached 24 individuals. Though the efforts of both agencies the wait list has been reduced to as low as two people and six persons were waiting as of the first Monday in December. In order to accommodate court orders, DHHS has had to limit mental health board commitments and has shifted some patients and staff from the forensic building to the other two buildings providing psychiatric inpatient treatment or sex offender treatment for males and one building providing treatment for female adolescents.

The shift of twenty persons and staff into the other buildings allowed DHHS to remodel a floor of the forensic building. The floor is now ready to open if the staff (11.0 Mental Health Security Specialists, 3.0 Registered Nurses) are funded pursuant to this request. The request increases the number of beds at the LRC that are staffed from 220 to 240.

State Ward Permanency Pilot, costs and waiver reimburse (DHHS)

The Legislature included \$3 million (\$1.5 million GF, \$1.5 million FF) beginning in FY2014-15 for a State Ward Permanency Pilot Project to provide developmental disability services to state wards in order to provide supports which promote permanency. The funding was continued in each year of the current biennium.

Individuals in the State Ward Permanency Pilot Project were administratively enrolled into the Medicaid DD children's waiver. The enrollment of these individuals, who were not on the waiting list for services, inadvertently created a prioritized class that is not in compliance with the waiver. Noncompliance with the waiver means the state will have to reimburse \$965,928 of federal funds paid for services per this project.

The Division of Developmental Disabilities also needs an additional \$450,000 of general funds to cover the cost of services to individuals currently being served through the State Ward Permanency Pilot Project. Forty youth have participated in the project since its inception on July 1, 2014. Twenty youth are still active in the project. The other twenty have achieved permanency by reaching the age of majority (7), reunification with their family (7), guardianship (4) or transfer to another agency (2 - probation).

Reduced Medicaid Match Rate (DHHS)

The current biennial budget enacted last session, was based on a federal medical assistance percentage (FMAP) of 51.16% rate for FFY2016 and an estimated FMAP of 51.57% starting October 2016 (FFY2017). It is now known that the FFY2017 FMAP will be 51.85% or .28% higher than estimated last session. These higher federal match rates result in a lower state match and reduced General Fund appropriations. The FMAP affects multiple program as shown below.

Program	Type	FY2015-16	FY2016-17
33 Developmental disability service coordination	Oper	0	(27,953)
344 Childrens Health Insurance (SCHIP)	Aid		(206,368)
348 Medicaid	Aid	0	(3,823,431)
354 Child Welfare	Aid	0	(54,813)
365 Mental Health operations	Oper	0	(6,506)
421 Beatrice State Develop Center (BSDC)	Oper	0	(62,695)
424 Developmental disability aid	Aid	0	(492,924)
Total GF impact of FMAP change		0	(4,674,690)

TEEOSA School Aid

The Appropriations Committee preliminary adjustments modifies the budgeted TEEOSA aid amount to the level called for under the existing law. In total this is \$1.4 million lower than estimate at Sine Die last year and was included in the budget enacted at that time. Taking into consideration changes in the Insurance Premium funds the overall changes in General Funds are a reduction of \$4,111,964 in FY2015-16 and \$4,089,432 in FY2016-17.

The following table shows the total amounts for TEEOSA aid (under current law), the key data elements important in determining the total, and the dollar and percent changes.

	Actual FY2014-15	Actual FY2015-16	Current Law FY2016-17	Estimated FY2017-18	Estimated FY2018-19
<u>Key Assumptions</u>					
School Disbursements	2.69%	3.48%	3.81%	3.35%	4.0%
Gen Fund Operating Expenditures (GFOE)	2.60%	4.16%	3.89%	3.35%	4.0%
Property Valuations (assessed)	8.5%	11.84%	10.4%	5.29%	4.0%
Property Valuations (used in formula)	2.8%	0.3%	0.2%	4.1%	4.0%
% of Valuation used in formula	84.87%	75.66%	68.70%	67.89%	67.89%
Cost Growth Factor	4.00%	5.00%	5.00%	5.00%	5.00%
Local Effort Rate	\$1.0000	\$1.000	\$1.000	\$1.000	\$1.000
<u>TEEOSA Total by Fund Source</u>					
General Funds	913,571,842	946,539,661	952,153,581	982,076,878	1,035,239,225
Insurance Premium Tax	19,400,000	26,496,964	27,159,388	24,838,373	28,534,332
Total TEEOSA state aid	932,971,842	973,036,625	979,312,969	1,006,915,251	1,063,773,557
<u>General Funds - Change over Prior Year</u>					
Dollar	28,683,525	32,967,820	5,613,919	29,923,297	53,162,347
Percent	3.2%	3.6%	0.6%	3.1%	5.4%
<u>All Funds - Change over Prior Year</u>					
Dollar	26,390,511	40,064,784	6,276,343	27,602,282	56,858,306
Percent	2.9%	4.3%	0.6%	2.8%	5.6%

The following table shows the chronology of the TEEOSA estimates since Sine Die 2015. The amounts shown are total TEEOSA aid including amounts financed with General Funds and Insurance Premium Tax. Since Sine Die 2015 the estimates for the formula data elements and subsequent aid amount, have now been replaced with actual data that is utilized to certify the FY2016-17 TEEOSA state aid. This includes calculation of formula students, actual Annual Financial Report data which is the basis for calculating NEEDS and other receipts, and property valuations which is the basis for calculating yield from local effort rate.

There were two revisions in the TEEOSA number. The first revision was made at the statutory joint meeting where the Department of Education (NDE), the Property Tax Administrator, the Legislative Fiscal Analyst, and the budget division of DAS are to provide an estimate for the upcoming year. This was the estimate used in the Governors recommendation.

The second changes occurred with the development of the NDE calculation of aid under the current law in January 2016.

	All Funds FY2013-14	All Funds FY2014-15	All Funds FY2015-16	All Funds FY2016-17
Sine Die 2015 (also Feb 2015 Certified)	973,036,625	980,687,639	1,026,924,781	1,080,485,899
Valuation, 2015 from 9.02% to 10.43% DPAT certified	0	(14,048,976)	(13,506,727)	(14,046,676)
Valuation; 2016 (4.0% to 5.29% DPAT est)	0	0	(5,919,889)	(6,141,627)
Spending growth: FY16 4.0% to 3.35% (first budget to budget)	0	0	(15,915,062)	(16,551,664)
Student Growth Adjustment	0	(8,026,888)	(8,347,964)	(8,681,883)
New School Adjustment	0	5,398,066	5,613,989	5,838,548
Formula NEEDS Stabilization	0	900,563	(1,274,811)	(1,325,803)
Change in LC gain / loss as part of reallocation	0	(768,045)	(1,054,953)	(1,054,953)
Non Equalized Min Levy Adjust	0	0	569,701	569,701
Change - Oct 2015 Joint Meeting	0	(16,545,280)	(39,835,716)	(41,394,357)
October 2015 Joint Meeting	973,036,625	964,142,359	987,089,065	1,039,091,542

Continued	All Funds FY2013-14	All Funds FY2014-15	All Funds FY2015-16	All Funds FY2016-17
Actual FY15 AFR, Higher GFOE	0	21,896,390	22,629,919	23,535,115
Actual FY15 AFR, Lower other GFOE adjustments	0	(999,285)	(1,032,761)	(1,074,072)
Change in NEEDS gained or lost in basic funding calculation	0	(4,056,088)	(1,497,285)	(1,557,176)
Revised Student Growth Adjustment	0	2,528,364	2,613,064	2,717,587
Averaging Adjustment	0	1,613,368	4,576,974	4,760,053
Formula NEEDS Stabilization	0	3,556,644	1,334,456	1,387,834
All Other NEEDS changes	0	1,004,174	1,037,816	1,079,330
Lower effective Yield from Local Effort Rate	0	88,822,603	88,998,851	92,558,758
Higher Minimum Levy Adjustment	0	(98,197,132)	(98,197,132)	(98,197,133)
Actual FY15 AFR, higher Other Receipts	0	(844,717)	(446,526)	(337,092)
Change in LC gain / loss as part of reallocation	0	273,191	506,711	506,711
Non Equalized Min Levy Adjust	0	(426,902)	(697,901)	(697,901)
Total Change - NDE Jan 15, 2016	0	15,170,610	19,826,186	24,682,014
NDE Jan 2016	973,036,625	979,312,969	1,006,915,251	1,063,773,556
<u>Change Since Sine Die 2015</u>				
Oct 2015 Joint Meeting	0	(16,545,280)	(39,835,716)	(41,394,357)
NDE Jan 2016	0	15,170,610	19,826,186	24,682,014
Change in TEEOSA (all Funds)	0	(1,374,670)	(20,009,530)	(16,712,343)
Change in Insurance Premium Tax	(4,111,964)	(2,714,763)	217,368	(2,852,198)
Change in TEEOSA (General Funds)	(4,111,964)	(4,089,433)	(19,792,162)	(19,564,541)

Reduce General Fund Reappropriations (DHHS)

The Governors recommendation included three areas where an evaluation of year to date expenditures or other factors indicate excess appropriations in those programs. The Appropriations Committee preliminary budget also includes these reductions as shown below.

In the behavioral health program, funds were reappropriated in anticipation that the state would be assessed a penalty because funds were transferred to the Medicaid program from the behavioral health program beginning in FY2014-15 to provide a match for the Medicaid Rehabilitation Option. The agency was able to provide proof of material compliance to the federal partner by including behavioral health expenditure data that was spent from the Medicaid program and the federal government will not assess a maintenance of effort penalty.

For Medicaid and Children's Health Insurance (SCHIP) program, the unexpended balances from the prior biennium were reappropriated to FY2015-16 as a contingency against higher expenditures. Halfway through this fiscal year it was determined that expenditure patterns did not warrant retention of all the reappropriated balances resulting in the lapse amounts shown here.

Program	Reduce FY16 New Appropriation	Lapse Reappropriation	Total
Behavioral Health aid (Prog 38)	0	(3,000,000)	(3,000,000)
Childrens Health Insurance (Prog 344)	(4,500,000)	(11,146,819)	(15,646,819)
Medicaid (Prog 348)	0	(84,774,997)	(4,622,744)
Base Adjustments, DHHS programs	(4,500,000)	(98,921,816)	(103,421,816)

Department of Correctional Services Items

The Department of Correctional Services (DCS) submitted significant requests for additional funding for a variety of purposes. The Governors recommendation funded the agency request, the only difference is that for the three construction related projects, the Governor funded those items through the Nebraska Capital Construction Fund (NCCF) financed with a Cash Reserve Fund transfer to the NCCF.

Governors Recommendation - DCS	FY2015-16	FY2016-17	Total
Inmate health service costs	2,058,700	2,525,012	4,583,712
Continuation of inmate county jail program	479,892	4,607,147	5,087,039
Inmate per diem costs (non-medical)	1,878,000	2,278,000	4,156,000
Program treatment costs, Parolees	0	600,000	600,000
Operations costs and equipment	1,774,997	2,939,925	4,714,922
Utility costs	1,161,507	1,207,968	2,369,475
Vacancy savings	(4,415,429)	(2,207,715)	(6,623,144)
Tecumseh Correctional Institution, repair and restoration	NCCF	0	0
New 160 bed unit - Community Corrections Center-Lincoln	NCCF	0	0
Program Statement - Reception and Treatment Center	NCCF	0	0
Total General Funds – Governors Recommendation	2,937,667	11,950,337	14,888,004

The committee did not fund any specific item requested by DCS and recommended by the Governor pending review during the agency hearing. However, the financial status recognizes the dollar amount that had been included in the Governors recommendation for DCS but under the category “Allocation for post hearing adjustment” to allow for subsequent consideration.

Appendix A

General Fund Mid-Biennium Budget Adjustments – Governor and Committee Preliminary

Agency	Item	Governor	Governor	Preliminary	Preliminary	Difference from Governor	
		FY2015-16	FY2016-17	FY2015-16	FY2016-17	FY2015-16	FY2016-17
Auditor	Unused health insurance	(21,000)	0	(21,000)	0	0	0
Auditor	Retiree vacation and sick leave payout	21,000	0	23,050	0	2,050	0
Attorney Gen	Ongoing water litigation costs	307,900	721,500	307,900	721,500	0	0
Education	TEEOSA, insurance premium tax adjustment	(4,111,963)	0	(4,111,963)	0	0	0
Education	TEEOSA state aid, to NDE calculated per current law	0	(18,243,013)	0	(4,089,432)	0	14,153,581
Education	Shift GF from Spec Ed to Medicaid, LB276	0	0	0	(2,526,847)	0	(2,526,847)
PSC	Retirements and Separations	na	na	18,010	0	18,010	0
PSC	Commissioner's Expenses	na	na	0	0	0	0
PSC	Track Inspector	na	na	0	0	0	0
PSC	Transportation Enforcement Contracts	na	na	0	0	0	0
PSC	Video Equipment	na	na	15,830	0	15,830	0
Revenue	Homestead Exemption (to current law)	600,000	1,200,000	600,000	1,200,000	0	0
DHHS	AccessNebraska call center funding, replace one-time funds	0	600,000	0	600,000	0	0
DHHS	Higher FFY2017 FMAP - Develop disability service coordination	0	(27,953)	0	(27,953)	0	0
DHHS	Managed care enrollment broker	0	3,445,925	0	3,445,925	0	0
DHHS	Behavioral health "system of care"	42,546	125,912	0	0	(42,546)	(125,912)
DHHS	Shift GF from Spec Ed to Early Intervention LB276	0	0	0	2,526,847	0	2,526,847
DHHS	One time reduction based on spending estimate	(4,500,000)	0	(4,500,000)	0	0	0
DHHS	Alleviate court ordered wait list, Lincoln Regional Center	265,308	1,061,232	0	1,061,232	(265,308)	0
DHHS	Base reduction- Beatrice State Develop Center (BSDC)	(300,000)	(300,000)	(300,000)	(300,000)	0	0
DHHS	State Ward Permanency Pilot Project Cost	1,373,812	500,000	1,373,812	500,000	0	0
DHHS	Developmental disability aid, rate methodology waiver reimbursement	Use reapp	0	11,340,542	0	11,340,542	0
DHHS	Higher FFY2017 FMAP - Childrens Health Insurance (SCHIP)	0	(206,368)	0	(206,368)	0	0
DHHS	Higher FFY2017 FMAP - Medicaid	0	(3,823,431)	0	(3,823,431)	0	0
DHHS	Higher FFY2017 FMAP - Child Welfare aid	0	(54,813)	0	(54,813)	0	0
DHHS	Higher FFY2017 FMAP - Mental Health operations	0	(6,506)	0	(6,506)	0	0
DHHS	Higher FFY2017 FMAP - Beatrice State Develop Center (BSDC)	0	(62,695)	0	(62,695)	0	0
DHHS	Higher FFY2017 FMAP - Developmental disability aid	0	(492,924)	0	(492,924)	0	0
Corrections	Inmate health service costs	2,058,700	2,525,012	0	0	(2,058,700)	(2,525,012)
Corrections	Continuation of inmate county jail program	479,892	4,607,147	0	0	(479,892)	(4,607,147)
Corrections	Inmate per diem costs (non-medical)	1,878,000	2,278,000	0	0	(1,878,000)	(2,278,000)
Corrections	Program treatment costs, Parolees	0	600,000	0	0	0	(600,000)
Corrections	Operations costs and equipment	1,774,997	2,939,925	0	0	(1,774,997)	(2,939,925)
Corrections	Utility costs	1,161,507	1,207,968	0	0	(1,161,507)	(1,207,968)
Corrections	Vacancy savings	(4,415,429)	(2,207,715)	0	0	4,415,429	2,207,715
Corrections	Tecumseh Correctional Institution, repair and restoration	NCCF	0	0	0	--	--
Corrections	New 160 bed female unit - Community Corrections Center-Lincoln	NCCF	0	0	0	--	--
Corrections	Program Statement - Reception and Treatment Center	NCCF	0	0	0	--	--

Agency	Item	Governor	Governor	Preliminary	Preliminary	Difference from Governor	
		FY2015-16	FY2016-17	FY2015-16	FY2016-17	FY2015-16	FY2016-17
St Colleges	Proposed Fair Labor Standards Act (FLSA) regulation changes	0	0	0	0	0	0
Hist Society	Leased purpose-built storage unforeseen costs	0	0	0	0	0	0
Hist Society	Relocation of SpaceSaver storage equipment	0	0	0	0	0	0
Indian Comm.	Insurance costs, change to full family coverage	0	0	3,977	25,028	3,977	25,028
Retirement	Statutory Contribution - School 2%	0	1,280,383	0	1,280,383	0	0
Retirement	Statutory Contribution - OPS service annuity	0	97,118	0	97,118	0	0
Retirement	Actuarially required contribution - State Patrol plan	0	(474,262)	0	(474,262)	0	0
TERC	Salary adjustment, attorney positions	0	0	0	0	0	0
Subtotal General Funds – Specific Items		(3,384,730)	(2,709,558)	4,750,158	(607,198)	8,134,888	2,102,360
Allocation for Post Hearing Adjustments				3,000,000	12,000,000	3,000,000	12,000,000
Total General Funds – New Appropriations		(3,384,730)	(2,709,558)	7,750,158	11,392,802	11,134,888	14,102,360

DHHS	Reduce GF reappropriation - Behavioral Health aid	(3,000,000)	0	(3,000,000)	0	0	0
DHHS	Reduce GF reappropriation - Childrens Health Insurance (SCHIP)	(11,146,819)	0	(11,146,819)	0	0	0
DHHS	Reduce GF reappropriation - Medicaid	(84,774,997)	0	(84,774,997)	0	0	0
DHHS	Develop disability, rate methodology waiver reimbursement	11,340,542	0	0	0	(11,340,542)	0
Total General Funds – Reappropriations		(87,581,274)	0	(98,921,816)	0	(11,340,542)	0

Appendix B

Summary of the FY16 / FY17 General Fund Budget with Preliminary Adjustment

	w/o Deficits	w/o Deficits	FY2015-16	With deficits	Per 2015	FY2016-17	Total	Change over Prior Yr		Change over Prior Yr	
	FY2014-15	FY2015-16	FY2015-16	FY2015-16	FY2016-17	2016 Change	FY2016-17	FY15-16 (w/o deficits)	%	FY16-17 (w/o deficits)	%
								\$		\$	
Agency Operations											
University/Colleges	592,212,914	614,763,452	0	614,763,452	635,472,980	0	635,472,980	22,550,538	3.8%	20,709,528	3.4%
Health & Human Services System	235,054,760	250,901,024	(300,000)	250,601,024	256,756,287	7,236,850	263,993,137	15,846,264	6.7%	13,092,113	5.2%
Correctional Services	181,813,346	201,754,397	0	201,754,397	192,864,541	0	192,864,541	19,941,051	11.0%	(8,889,856)	-4.4%
Courts	149,427,839	166,968,022	0	166,968,022	179,080,632	0	179,080,632	17,540,183	11.7%	12,112,610	7.3%
State Patrol	56,576,821	58,537,010	0	58,537,010	60,095,811	0	60,095,811	1,960,189	3.5%	1,558,801	2.7%
Revenue	26,428,021	26,805,142	0	26,805,142	27,256,828	0	27,256,828	377,121	1.4%	451,686	1.7%
Retirement Board	46,645,251	47,477,438	0	47,477,438	46,400,000	903,239	47,303,239	832,187	1.8%	(174,199)	-0.4%
Other 40 Agencies	141,320,139	154,389,309	347,767	154,737,076	162,110,499	746,528	162,857,027	13,069,170	9.2%	8,467,718	5.5%
Total-GF Operations	1,429,479,091	1,521,595,794	47,767	1,521,643,561	1,560,037,578	8,886,617	1,568,924,195	92,116,703	6.4%	47,328,401	3.1%
State Aid to Individuals/Others											
Medicaid	777,723,897	818,751,907	0	818,751,907	861,800,928	(3,823,431)	857,977,497	41,028,010	5.3%	39,225,590	4.8%
Child Welfare Aid	137,778,999	142,549,735	0	142,549,735	145,248,431	(54,813)	145,193,618	4,770,736	3.5%	2,643,883	1.9%
Public Assistance	110,319,888	111,909,169	0	111,909,169	113,094,067	0	113,094,067	1,589,281	1.4%	1,184,898	1.1%
Developmental disabilities aid	137,040,195	145,556,246	12,714,354	158,270,600	150,660,905	7,076	150,667,981	8,516,051	6.2%	5,111,735	3.5%
Behavioral Health aid	67,444,214	69,421,172	0	69,421,172	74,044,769	0	74,044,769	1,976,958	2.9%	4,623,597	6.7%
Childrens Health Insurance (SCHIP)	27,560,027	12,408,257	(4,500,000)	7,908,257	6,646,762	(206,368)	6,440,394	(15,151,770)	-55.0%	(5,967,863)	-48.1%
Aging Programs	9,463,465	9,868,712	0	9,868,712	10,449,701	0	10,449,701	405,247	4.3%	580,989	5.9%
Higher Ed Student Aid programs	7,553,156	7,603,156	0	7,603,156	7,603,156	0	7,603,156	50,000	0.7%	0	0.0%
Public Health Aid	6,437,612	7,077,612	0	7,077,612	6,917,612	0	6,917,612	640,000	9.9%	(160,000)	-2.3%
Business Innovation Act	6,760,000	6,760,000	0	6,760,000	6,760,000	0	6,760,000	0	0.0%	0	0.0%
Community health centers	4,308,060	5,708,060	0	5,708,060	5,783,060	0	5,783,060	1,400,000	32.5%	75,000	1.3%
All Other Aid to Individuals/Other	12,512,373	11,230,853	0	11,230,853	11,256,968	0	11,256,968	(1,281,520)	-10.2%	26,115	0.2%
Total-GF Aid to Individuals/Other	1,304,901,886	1,348,844,879	8,214,354	1,357,059,233	1,400,266,359	(4,077,536)	1,396,188,823	43,942,993	3.4%	47,343,944	3.5%
State Aid to Local Govts											
State Aid to Schools (TEEOSA)	913,571,842	950,651,625	(4,111,963)	946,539,662	956,243,013	(4,089,432)	952,153,581	37,079,783	4.1%	1,501,956	0.2%
Special Education	213,767,961	219,112,160	0	219,112,160	224,589,964	(2,526,847)	222,063,117	5,344,199	2.5%	2,950,957	1.3%
Property Tax Credit	Transfer	Transfer			Transfer			--	--	--	--
Aid to Community Colleges	95,040,351	97,891,562	0	97,891,562	100,828,308	0	100,828,308	2,851,211	3.0%	2,936,746	3.0%
Homestead Exemption	73,521,000	71,000,000	600,000	71,600,000	71,315,000	1,200,000	72,515,000	(2,521,000)	-3.4%	1,515,000	2.1%
Personal Property Tax Relief Act	0	0	0	0	19,600,000	0	19,600,000	0	#DIV/0!	19,600,000	#DIV/0!
Aid to ESU's	14,051,761	14,051,761	0	14,051,761	14,051,761	0	14,051,761	0	0.0%	0	0.0%
Early Childhood programs	9,235,164	5,820,164	0	5,820,164	8,770,164	0	8,770,164	(3,415,000)	-37.0%	2,950,000	50.7%
Community Based Juvenile Services	4,950,000	6,300,000	0	6,300,000	6,300,000	0	6,300,000	1,350,000	27.3%	0	0.0%
Resources Development Fund	13,633,118	3,140,325	0	3,140,325	3,140,325	0	3,140,325	(10,492,793)	-77.0%	0	0.0%
Other Aid to Local Govt	7,235,912	7,012,799	0	7,012,799	7,531,246	0	7,531,246	(223,113)	-3.1%	518,447	7.4%
Total-GF Aid to Local Govt	1,345,007,109	1,374,980,396	(3,511,963)	1,371,468,433	1,414,712,743	(5,416,279)	1,409,296,464	29,973,287	2.2%	34,316,068	2.5%
Capital Construction											
	26,437,444	26,382,800	0	26,382,800	22,239,000	0	22,239,000	(54,644)	-0.2%	(4,143,800)	-15.7%
Total Appropriations											
	4,105,825,530	4,271,803,869	4,750,158	4,276,554,027	4,397,255,680	(607,198)	4,396,648,482	165,978,339	4.0%	124,844,613	2.9%

Appendix C

General Fund Spending Assumptions - Following Biennium

<i>Dollar Changes from FY17 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

Note that these calculations do not include the annualized impacts of 2016 budget actions which are shown separately on the financial status

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	<u>2,645,228</u>	<u>9,942,870</u>	<u>14,479,606</u>	<u>17,793,175</u>
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	<u>1,763,046</u>	<u>4,939,695</u>	<u>9,476,431</u>	<u>12,790,000</u>

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.