

Tax Rate Review Committee November 2018



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

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

**Senator Jim Scheer
Senator Dan Watermeier
Senator John Stinner
Senator Curt Friesen
Tony Fulton**

**Prepared by the Legislative Fiscal Office
November 15, 2018**

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Summary

This report includes a current projected General Fund Financial Status for the upcoming FY2019-20 and FY2020-21 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 FY2021-22 and FY2022-23 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 FY2018-19, FY2019-20 and FY2020-21, (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 \$95.1 million ***below*** the minimum reserve for the upcoming FY19-20 / FY20-21 biennial budget. Note that for the upcoming biennium the minimum reserve is restored to the 3.0% level after being at 2.5% the last biennium for budget balancing purposes.

This projected shortfall reflects a slight imbalance between two year average revenue growth of 3.1% and a 3.9% two year average increase in appropriations based on the projected continuation budget.

Revenue Growth

Revenue growth (adjusted for rate and base changes) continues to be below average for the upcoming biennium. Revenue estimates for FY2018-19, FY2019-20, and FY2020-21 are the October 2018 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth implied by these current forecasts is 5.5% in FY18-19 but a slowdown in the upcoming biennium where the forecasts translate to rate and base adjusted growth of 3.3% in FY19-20 and 2.8% in FY20-21

For the “following biennium”, revenue growth is calculated at 5% per year using the historical average methodology. The target growth is the historical average of 4.75% but adjusted down to 4.3% to exclude growth that is now negated by indexing of the income tax brackets and other components. These calculated amounts are still at the higher 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 (FY2019-20 and FY2020-21) reflect agency requests for the items shown while estimated increases for the following biennium

(FY21-22 and FY2022-23) are based on historical trends. No new or expanded programs in the agency requests are included. *In many cases, rationales for the FY20 and FY21 requests are incomplete as these requests are currently under analysis.*

Overall the projected budget results in a budget growth of 4.5% in FY2019-20 and 3.2% in FY2020-21, a 3.9% two year average. To some extent, this reflects relatively modest growth in Medicaid and other DHHS aid programs which collectively average a 3.9% increase per year over the biennium. However, this includes increases due to the passage of the Medicaid expansion initiative and a 2.5% provider rate increase partially offset by a significant savings due to a higher Medicaid match rate (FMAP). TEEOSA aid has a higher growth in FY19-20 of 7% but almost 80% of that increase is attributed to the expiration of two formula changes enacted two years ago to lower aid the previous biennium.

	Projected Increase to FY19 Base Year	FY2019-20	FY2020-21	Two Yr total	% of Total
1	TEEOSA Aid to Schools (General Funds only)	68,030,866	103,817,247	171,848,113	31.3%
2	Provider rates, DHHS aid programs	39,515,294	70,741,448	110,256,742	20.1%
3	Medicaid (other than FMAP, provider rates, expansion)	22,161,456	38,694,746	60,856,202	11.1%
4	Salaries & Health Insurance (University+Colleges)	21,237,141	47,032,348	68,269,489	12.4%
5	Salaries & Health Insurance (Agencies)	19,811,924	37,736,682	57,548,606	10.5%
6	Medicaid expansion (net)	14,834,263	33,241,503	48,075,766	8.8%
7	Childrens Health Insurance (SCHIP) (special FMAP expires)	7,502,718	18,370,981	25,873,699	4.7%
8	Capital Construction	16,996,488	6,296,838	23,293,326	4.2%
9	Special Education	5,663,165	11,467,908	17,131,073	3.1%
10	Operating inflation+DAS rates (State Agencies)	6,616,783	7,975,719	14,592,502	2.7%
11	Community Colleges	3,450,156	7,021,067	10,471,223	1.9%
12	Staffing, programs, equipment (Corrections)	4,146,901	4,763,596	8,910,497	1.6%
13	Homestead Exemption	2,304,090	5,328,233	7,632,323	1.4%
14	Juvenile justice, increased costs (Courts)	1,350,000	2,733,750	4,083,750	0.7%
15	Retirement, K-12 School / Judges / Patrol	1,301,829	2,551,829	3,853,658	0.7%
16	Justice Reinvestment Act (Courts)	1,168,373	1,176,051	2,344,424	0.4%
17	Aid to ESU's	340,755	690,029	1,030,784	0.2%
18	Annualize LB 259 competency determinations (Courts)	359,493	367,831	727,324	0.1%
19	Personal Property Tax Relief Act	0	155,529	155,529	0.0%
18	Federal Medicaid Match rate (FMAP, op & aid)	(37,627,953)	(50,170,606)	(87,798,559)	-16.0%
19	Funds shifts (DHHS)	(954,885)	(1,273,181)	(2,228,066)	-0.4%
20	All Other	778,485	1,096,778	1,875,263	0.3%
21	Total	198,987,342	349,816,326	548,803,668	100.0%
22	Annual Percent Change	4.5%	3.2%	3.9%	

Cash Reserve Fund

In this financial status the unobligated ending balance in the Cash Reserve Fund (CRF) is projected at \$402.8 million. This is higher than the \$296.4 million estimate at the end of the last session. At that time, the forecast for FY17-18 would have generated a \$25 million transfer to the CRF. FY17-18 actual receipts exceeded the forecast and a total of \$62 million was actually transferred. Also the Forecast Board raised the FY18-19 forecast by \$69.3 million. As the FY18-19 forecast has already been certified, by law this amount above certified would be transferred to the CRF.

FY2018-19 Deficits

As of this point in time, requests for FY2018-19 supplemental General Funds (aka deficits) actually show a reduction of \$1.8 million mostly due to lower General Funds needed for TEEOSA due to higher insurance tax premiums. However, it's also not unusual to receive deficit requests into January or even February. A complete listing of deficits is included in Appendix C (page 24).

Medicaid Expansion

Initiative 427 was a proposal to expand the Medicaid program to cover childless adults, 19 to 64 years of age, under the provisions of the Affordable Care Act (ACA). This ballot initiative was similar to several bills that have been proposed over the past six years. This initiative was adopted on November 6, 2018 and is therefore included in this projected budget. Because of the short time between this report and its passage, these numbers should be considered as preliminary and still under review.

The gross expansion costs are based on the Dept. of Health and Human Services analysis of the petition dated September 21, 2018. In their report, DHHS stated that their estimates were built upon analyses of the past legislative proposes and the experience of other states that have opted into the ACA Medicaid Expansion.

The estimated savings are estimates of the Legislative Fiscal Office which are higher than those included in the DHHS report

The folloiwng is a summary of the General Fund costs included in the projected budget. More detail can be found on page 19.

	<u>FY2019-20*</u>	<u>FY2020-21</u>	<u>FY2021-22</u>	<u>FY2022-23</u>
Expansion costs	21,402,182	51,526,208	64,977,511	67,536,008
Offsetting savings	(6,567,919)	(18,284,705)	(26,101,892)	(26,101,892)
Net General Fund Costs	14,834,263	33,241,503	38,875,619	41,434,116
Additional Enrollees	57,592	70,882	88,602	89,223
Match Rate	90.0%	90.0%	90.0%	90.0%
Per Member Per Month Cost	\$489.59	\$495.26	\$500.91	\$516.69

* Assumes January 1, 2020 start date

Wayfair Ruling

The Supreme Court of the United States ruled on June 21, 2018, that states can tax sales by out-of-state businesses. Prior to the Supreme Court ruling in *South Dakota v. Wayfair, Inc.*, states could tax sales by businesses with a physical presence in the state, but not those by businesses with no physical presence. In *Wayfair*, the Supreme Court found this physical presence rule to be “unsound and incorrect.” It determined the “economic and virtual contacts” between a state and a business to be a sufficient trigger for nexus, the connection between a business and a state that allows a state to tax a business’s transactions.

On July 27, 2018, the Department of Revenue announced that following the Supreme Court ruling in *South Dakota v. Wayfair* under current statutes certain remote sellers now have a sales tax collection responsibility on sales made to customers in Nebraska and would start collecting that tax starting January 1, 2019. For this reason, to account for the collection of taxes on these remote sellers additional sales tax amounts were added to the LFO baseline forecasts and are included in subsequent Forecast Board forecasts,.

Based on assumptions that can be found on page10, on a fiscal year basis sales tax attributed to the *Wayfair* ruling and included in the current forecasts, amount to \$9 million in FY2018-19, \$26 million in FY2019-20 and \$30 million in FY2020-21

Projected General Fund Financial Status

	Current Yr FY2018-19	Upcoming Biennium FY2019-20 FY2020-21		Following Biennium FY2021-22 FY2022-23	
1 BEGINNING BALANCE					
2 Beginning Cash Balance	453,601,627	301,786,148	229,749,190	186,149,246	216,135,751
3 Cash Reserve transfers-automatic	(61,995,773)	(69,266,000)	0	0	0
4 Carryover obligations from FY18	(253,029,158)	0	0	0	0
5 Lapse FY19 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	138,576,696	227,520,148	224,749,190	181,149,246	211,135,751
8 REVENUES & TRANSFERS					
9 Net Receipts (Oct 2018 NEFAB + hist avg)	4,800,000,000	4,890,000,000	5,000,000,000	5,286,000,000	5,544,000,000
10 General Fund transfers-out (current law)	(230,300,000)	(232,500,000)	(232,500,000)	(232,500,000)	(232,500,000)
11 General Fund transfers-in (current law)	in forecast	0	0	0	0
12 Cash Reserve transfers (current law)	48,000,000	0	0	0	0
13 2019 Cash Reserve transfers (new)	0	0	0	0	0
14 2019 Revenue Bills	0	0	0	0	0
15 General Fund Net Revenues	4,617,700,000	4,657,500,000	4,767,500,000	5,053,500,000	5,311,500,000
16 APPROPRIATIONS					
17 Expenditures / Appropriations (2018 Session)	4,456,283,615	4,456,283,615	4,456,283,615	4,456,283,615	4,456,283,615
18 2019 Mainline Budget Adjustments	(1,793,067)	198,987,343	349,816,329	349,816,329	349,816,329
19 Projected budget increase, following biennium	0	0	0	212,413,551	420,433,623
20 2019 State Claims	0	0	0	0	0
20 2019 "A" Bills	0	0	0	0	0
21 General Fund Appropriations	4,454,490,548	4,655,270,958	4,806,099,944	5,018,513,495	5,226,533,567
22 ENDING BALANCE					
23 \$ Ending balance (per Financial Status)	301,786,148	229,749,190	186,149,246	216,135,751	296,102,184
24 \$ Ending balance (at Min. Reserve 3.0%)			281,286,995		307,315,027
25 Excess (shortfall) from Minimum Reserve			(95,137,749)		(11,212,843)
26 Biennial Reserve (%)			2.0%		2.9%
General Fund Appropriations					
27 Annual % Change - Appropriations (w/o deficits)	1.3%	4.5%	3.2%	4.4%	4.1%
28 Two Year Average	0.5%	--	3.9%	--	4.3%
General Fund Revenues					
29 Est. Revenue Growth (rate/base adjusted)	5.5%	3.3%	2.8%	5.0%	5.0%
30 Two Year Average	5.0%	--	3.1%	--	5.0%
31 Five Year Average	3.3%	--	3.4%	--	4.3%
32 <u>On-Going Revenues vs Appropriations</u>	113,416,385	2,229,042	(38,599,944)	34,986,505	84,966,433

CASH RESERVE FUND	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23
Beginning Balance	339,990,065	333,549,124	402,815,124	402,815,124	402,815,124
Excess of certified forecasts (line 3 in Status)	61,995,773	69,266,000	0	0	0
To/from Gen Fund per current law	(48,000,000)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(20,436,714)	0	0	0	0
2019 Session - Transfers to/from General Fund	0	0	0	0	0
Projected Unobligated Ending Balance	333,549,124	402,815,124	402,815,124	402,815,124	402,815,124

Chronology of Projected Financial Status

(millions of dollars)	FY18 / FY19 Biennium	FY20/FY21 Biennium	FY22/FY23 Biennium
Variance from Minimum Reserve: Sine Die 2018 Session	0.7	94.5	na
1 FY18 Actual vs Est. General Fund Net Receipts	38.4	38.4	--
2 FY18 Actual vs Est. CRF transfers-automatic	(37.0)	(37.0)	--
3 FY16 Actual vs Est. Accounting adjustment	(3.0)	(3.0)	--
Variance from Minimum Reserve: TRR July 2018	(0.8)	(93.8)	na
4. Revenue Forecasts (revised Oct 2018)	69.3	(267.2)	(267.2)
5. "Above certified" FY18-19 forecast to CRF	(69.3)	(69.3)	(69.3)
6. Change in Minimum Reserve	0.0	9.8	--
Variance from Minimum Reserve: NEFAB Oct 2018	(0.8)	(232.8)	na
7. Deficit requests vs \$5M	0.0	3.2	--
8. Revised estimate of FY20/FY21 projected budget (2 yr total)	0.0	131.7	--
9. Change in Minimum Reserve	0.0	3.4	--
Variance from Minimum Reserve: TRR November 2018	(0.8)	(95.1)	(11.2)

NOTES:

Item 4 Revised Revenue Forecasts:

Revised NEFAB forecast for FY18-19	\$69.3 million
Original NEFAB forecasts vs LFO Prelim for FY19-20	(65.8) million
Original NEFAB forecasts vs LFO Prelim for FY20-21	(270.7) million
Three Year Total	(267.2) million

Item 8 Revised Estimated Spending versus Planning Numbers (millions of dollars)

Because this shows the impact on available funds, positive numbers mean lower appropriations and negative amounts mean increased appropriations.

Item	FY19-20	FY20-21	Total
Education - Revised TEEOSA aid estimates (Oct 2016 Joint Meeting)	2.8	46.1	49.0
Corrections - Inmate per diem costs (3% vs request)	1.4	2.8	4.2
DHHS - FMAP	37.6	50.2	87.8
DHHS - SCHIP Enhanced 23% FMAP Reduction	12.5	7.6	20.2
DHHS - SCHIP (eligibility, utilization)	0.6	1.4	2.1
DHHS - Medicaid (eligibility, utilization)	0.4	2.9	3.4
DHHS - Child Welfare (eligibility, utilization)	3.8	7.8	11.7
DHHS - Medicaid expansion (net)	(14.8)	(33.2)	(48.0)
DHHS - Develop Disability (eligibility, utilization)	4.2	7.0	11.3
DHHS - Provider rates (2.5% vs request, DD and BH)	(3.8)	2.4	(1.3)
DHHS - Medicaid (clawback)	(5.6)	(6.9)	(12.4)
All - Salary increase (updated base, stay at 2.5% per year)	(2.9)	(5.2)	(8.0)
All - Health Insurance increase (6.0% to varies)	6.5	7.8	14.4
All - CIO Rate & Service Charges	(2.5)	(3.7)	(6.2)
All - DAS Charges & Inflation	0.0	0.0	0.0
Revised estimate of budget increases, all other	1.1	2.5	3.6
Total	41.5	89.6	131.7

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.

At the end of the 2018 legislative session, the unobligated balance was projected at \$296.4. The current estimate is \$402.8 million. This increase is attributed to (a) the actual transfer of \$\$62 million attributed to FY2017-18 actual receipts being above certified forecast and (b) an estimated \$69.3 million transfer related to the current NEFAB forecast for FY2018-19 being above the July certified amount.

Table 1 Cash Reserve Fund

	Estimated FY2018-19	Estimated FY2019-20	Estimated FY2020-21	Estimated FY2021-22	Estimated FY2022-23
Beginning Balance	339,990,065	333,549,124	402,815,124	402,815,124	402,815,124
Excess of certified forecasts (line 3 in Status)	61,995,773	69,266,000	0	0	0
To/from Gen Fund per current law	(48,000,000)	0	0	0	0
To Nebr Capital Construction Fund (NCCF)	(20,436,714)	0	0	0	0
Ending Balance	333,549,124	402,815,124	402,815,124	402,815,124	402,815,124

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.

Actual receipts for FY17-18 (\$4,566,995,773) were \$61,995,773 above the certified forecast of \$4,505,000,000 which is the transfer number shown in the FY2018-19 column.

The NEFAB forecast for FY2018-19 as revised in October 2018 is \$4,890,000,000 which is \$69,266,000 above the certified forecast of \$4,730,734,000. By law this amount above the certified forecast would be transferred to the Cash Reserve Fund. However, this is only an estimated number at this time.

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 the 2017 Session, the Legislature transferred a total of \$173 million to the General Fund to assist in balancing the budget and to help replenish the reserve to the statutory minimum level.

Transfers To & From Other Funds

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. During the 2017

session the total transfer amount didn't change but the cash flow of the transfers was changed to \$10,005,129 in FY2018-19 and \$10,431,585 in FY2020-21. In the 2018 session, the FY2020-21 transfer was moved to FY2018-19 providing a total of \$20,436,714.

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%
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	730,655,108	0	0	(50,000,000)	0	680,655,108	16.0%
FY2017-18	680,655,108	150,000	0	(340,930,772)	0	339,874,336	7.4%
FY2018-19 Est	339,874,336	0	61,995,773	(68,436,714)	0	333,549,124	6.9%
FY2019-20 Est	333,549,124	0	69,266,000	0	0	402,815,124	8.2%
FY2020-21 Est	402,815,124	0	0	0	0	402,815,124	8.1%

General Fund Revenues

General Fund Revenue Forecasts

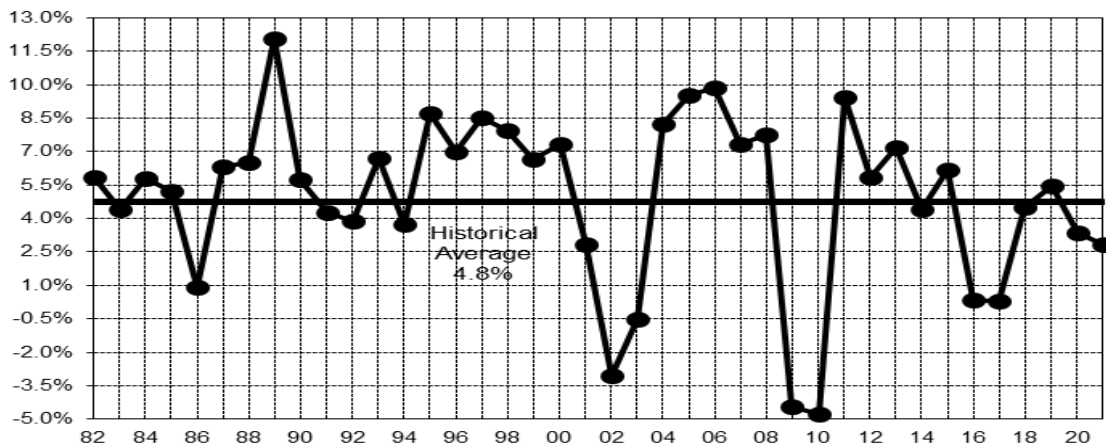
Revenue estimates for FY2018-19, FY2019-20 and FY2020-21 are the October 2018 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Rate and base adjusted revenue growth implied by the forecasts for the FY20/FY21 biennium average 3.1% (3.3% in FY19-20 and 2.8% in FY20-21). When including the 5.5% growth in the FY18-19 forecast, there is an average growth of 3.9% over the three years that affect the financial status for the upcoming biennium. This reflects growth below the 4.8% historical 37 year average.

Note that these revenue forecasts include the impact of the Wayfair ruling related to remote sellers. A more complete explanation can be found on page 10.

Table 3 General Fund Revenue Forecasts

	NEFAB FY2018-19	NEFAB FY2019-20	NEFAB FY2020-21	LFO Prelim FY2021-22	LFO Prelim FY2022-23
Actual/Forecast					
Sales and Use Tax	1,700,000,000	1,780,000,000	1,805,000,000	1,887,000,000	1,957,000,000
Individual Income Tax	2,495,000,000	2,600,000,000	2,700,000,000	2,872,000,000	3,054,000,000
Corporate Income Tax	335,000,000	320,000,000	320,000,000	337,000,000	354,000,000
Miscellaneous receipts	270,000,000	190,000,000	175,000,000	190,000,000	179,000,000
Total Forecast	4,800,000,000	4,890,000,000	5,000,000,000	5,286,000,000	5,544,000,000
Adjusted Growth					
Sales and Use Tax	5.1%	4.0%	2.1%	3.5%	3.5%
Individual Income Tax	6.0%	4.3%	3.8%	6.3%	6.3%
Corporate Income Tax	4.1%	-7.0%	1.2%	5.1%	4.8%
Miscellaneous receipts	4.6%	4.2%	-1.2%	1.2%	1.0%
Total GF Receipts	5.5%	3.3%	2.8%	5.0%	5.0%
Two Yr Average	5.0%	--	3.1%	--	5.0%
Five Yr Average	3.4%	--	3.4%	--	4.3%

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



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 (FY21-22 and FY22-23) 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 (FY19 to FY23) roughly equal to the 37 year historical average (4.7%) 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 37 years, there were 14 years in which revenue growth was "below average" (1.2% 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 4.3% five year average is 5.0% in both FY21-22 and FY22-23.

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 4th and 5th 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

Based on Oct 2018 Revenue Forecasts	Current Status	Average IHS Economics	Average All Forecasts	High Est LFO-Moody's	Low Est NDR IHS
<u>Dollar Forecast (thousands)</u>					
FY2021-22 Prelim	5,286,000	5,203,581	5,178,816	5,330,971	5,128,922
FY2022-23 Prelim	5,544,000	5,401,026	5,381,355	5,557,093	5,319,179
<u>Calculated Growth (adjusted)</u>					
FY2021-22 Prelim	5.0%	3.4%	2.9%	5.9%	2.0%
FY2022-23 Prelim	5.0%	4.3%	4.4%	4.7%	4.2%
Two Year Average	5.0%	3.9%	3.7%	5.3%	3.1%
Five Year Average	4.3%	3.9%	3.8%	4.4%	3.6%
<u>\$ Difference from Status</u>					
FY2021-22 Prelim	0	(82,419)	(107,185)	44,971	(157,078)
FY2022-23 Prelim	0	(142,975)	(162,646)	13,093	(224,821)
Cumulative Total	0	(225,394)	(269,830)	58,064	(381,899)

Impact of South Dakota v. Wayfair Ruling

The Supreme Court of the United States ruled on June 21, 2018, that states can tax sales by out-of-state businesses. Prior to the Supreme Court ruling in *South Dakota v. Wayfair, Inc.*, states could tax sales by businesses with a physical presence in the state, but not those by businesses with no physical presence. In *Wayfair*, the Supreme Court found this physical presence rule to be “unsound and incorrect.” It determined the “economic and virtual contacts” between a state and a business to be a sufficient trigger for nexus, the connection between a business and a state that allows a state to tax a business’s transactions.

On July 27, 2018, the Department of Revenue announced that following the Supreme Court ruling in *South Dakota v. Wayfair* under current statutes certain remote sellers now have a sales tax collection responsibility on sales made to customers in Nebraska and would start collecting that tax starting January 1, 2019. For this reason, additional sales tax amounts were added to the LFO baseline forecasts and subsequent Forecast Board forecasts, to account for the collection of taxes on these remote sellers.

The projected amounts were based on the latest fiscal note on LB 44 considered in the 2018 session, which related to collection of sales tax from remote sellers (online retailer without a physical presence in our state). The estimate of additional sales tax revenues under that bill was a range from \$30-\$40 million.

For estimation purposes, it was assumed annual potential revenues of \$30 million in FY2018-19, \$35 million in FY2019-20 and \$40 million in FY2020-21. These numbers are all within the LB44 range and recognize inflation plus compliance improvements over time. The calculation of the adjustment amounts further assumed:

- (1) Of the total potential sales tax revenue, 50% would be attributed to marketplace providers and 50% to direct sales and
- (2) Only half of the sales tax related to marketplace providers would be remitted due to some potential collection issues, and
- (3) FY2018-19 will reflect only five months of revenues because of the January 1, 2019 operative date, only five months of revenue will be received in FY2018-19 versus a full twelve months in FY2019-20 and FY2020-21.

Based on these assumptions, on a fiscal year basis, sales tax attributed to the *Wayfair* ruling and included in the current forecasts, amount to \$9 million in FY2018-19, \$26 million in FY2019-20 and \$30 million in FY2020-21

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	Actual	Upcoming Biennial Budget		Following Biennium	
	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23
Property Tax Credit Fund	(221,000,000)	(221,000,000)	(221,000,000)	(221,000,000)	(221,000,000)
Water Resources Cash Fund	(3,300,000)	0	0	0	0
Cultural Preservation Endowment Fund	0	(500,000)	(500,000)	(500,000)	(500,000)
Water Sustainability Fund	(6,000,000)	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)
Victim's Compensation Fund	0	0	0	0	0
<i>General Fund Transfers-Out</i>	<i>(230,300,000)</i>	<i>(232,500,000)</i>	<i>(232,500,000)</i>	<i>(232,500,000)</i>	<i>(232,500,000)</i>

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 \$3 million less than the credit amount. This is because the credit amount is funded through these General Fund transfers plus 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). 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.

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.

Historically there have been transfers from three main sources; Securities Act Cash Fund, Tobacco Products Admin Cash Fund, and the Dept. of Insurance Cash Fund. In the 2017 and 2018 session's transfers from these traditional sources amounted \$54.2 million in FY18-19. Because of the significant budget shortfall, cash funds from non-traditional sources were also transferred to the General Fund. Overall, in FY18-19 the non-traditional transfers from 47 different funds amounted to \$44.8 million. This included \$7.5 million from the Roads Operations Fund, \$10 million from the Medicaid Intergovernmental Transfer Trust Fund (related to the Health Care Cash Fund), and \$4.5 million from the Game & Parks Capital Maintenance Fund.

The transfers shown below for FY2018-19 were enacted in the 2017 and 2018 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 FY2019-20 and FY2020-21 and as such the revenue forecasts do not include any transfers.

Table 6 General Fund Transfers In

	FY2018-19	FY2019-20	FY2020-21	FY2021-22	FY2022-23
Securities Act Cash Fund	32,000,000	0	0	0	0
Tobacco Products Admin Cash Fund	13,000,000	0	0	0	0
Dept of Insurance Cash Fund	9,250,000	0	0	0	0
Medicaid Intergovernmental Transfer Trust Fund	10,000,000	0	0	0	0
Roads Operations Cash Fund	7,500,000	0	0	0	0
Game & Parks Capital Maintenance Fund	4,500,000	0	0	0	0
State Building Renewal Assessment Fund	2,900,000	0	0	0	0
Affordable Housing Trust Fund	2,250,000	0	0	0	0
Game & Parks Capital Maintenance Fund	4,000,000	0	0	0	0
Workers Comp Court Cash Fund (shift to FY19)	1,500,000	0	0	0	0
State Visitors Promotion Fund	1,000,000	0	0	0	0
DHHS Cash Fund	2,570,000	0	0	0	0
State Settlement Fund	1,006,639	0	0	0	0
Other cash funds (24 different funds)	7,613,294	0	0	0	0
Total General Fund Transfers-In	98,589,933	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 (FY2019-20 and FY2020-21) reflect agency requests for the items shown while estimated increases for the following biennium (FY2021-22 and FY2022-23) are based on historical trends.

Note that in most cases, rationales for the FY2019-20 and FY2020-21 requests are not available as these requests are currently under analysis.

Overall the projected budget results in a budget growth of 4.5% in FY2019-20 and 3.2% in FY2020-21, a 3.9% two year average

Table 7 Projected General Fund Budget

	Current Year FY2018-19	Upcoming Biennial Budget FY2019-20 FY2020-21		Est for Following Biennium FY2021-22 FY2022-23	
Projected Budget					
Agency Operations	1,583,458,863	1,639,831,931	1,688,476,459	1,738,928,895	1,791,019,814
State Aid to Ind/Other	1,415,580,493	1,461,409,248	1,525,602,375	1,602,971,812	1,672,814,951
State Aid to Local Govt	1,435,505,259	1,515,294,291	1,563,985,272	1,649,066,419	1,735,338,939
Construction	21,739,000	38,735,488	28,035,838	27,546,369	27,359,863
Total (w/o deficits)	4,456,283,615	4,655,270,958	4,806,099,944	5,018,513,495	5,226,533,567
Dollar Change					
Operations	--	56,373,068	48,644,528	50,452,436	52,090,919
State Aid to Ind/Other	--	45,828,755	64,193,127	77,369,437	69,843,139
State Aid to Local Govt	--	79,789,032	48,690,981	85,081,147	86,272,520
Construction	--	16,996,488	(10,699,650)	(489,469)	(186,506)
Total (w/o deficits)	--	198,987,343	150,828,986	212,413,551	208,020,072
Percent Change					
Agency Operations	--	3.6%	3.0%	3.0%	3.0%
State Aid to Ind/Other	--	3.2%	4.4%	5.1%	4.4%
State Aid to Local Govt	--	5.6%	3.2%	5.4%	5.2%
Construction	--	78.2%	-27.6%	-1.7%	-0.7%
Total (w/o deficits)	--	4.5%	3.2%	4.4%	4.1%

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

Change over Prior Year	Projected Growth		Upcoming Biennial Budget		Est for Following Biennium	
	FY19-20	FY20-21	FY2019-20	FY2020-21	FY2021-22	FY2022-23
<u>Aid to Local Governments</u>						
Aid to K-12 Schools (TEEOSA GF only)	7.0%	3.4%	68,030,866	35,786,381	71,963,873	72,774,788
Special Education	2.5%	2.5%	5,663,165	5,804,743	5,949,862	6,098,609
Community Colleges	3.5%	3.5%	3,450,156	3,570,911	3,695,893	3,825,249
Homestead Exemption	2.7%	3.5%	2,304,090	3,024,143	2,682,847	2,763,332
Personal Property Tax Relief Act	0.0%	1.1%	0	155,529	430,666	443,586
Aid to ESU's	2.5%	2.5%	340,755	349,274	358,006	366,956
Other (Aid-Local)	--	--	0	0	0	0
<u>Aid to Individuals / Other</u>						
Medicaid	3.6%	3.2%	30,609,649	54,498,301	55,385,164	46,972,257
Public Assistance	2.9%	3.8%	2,767,793	2,896,165	3,523,030	3,646,336
Child Welfare Aid	2.0%	2.4%	3,998,753	4,740,755	9,261,490	9,678,257
Developmental Disability aid	0.6%	-1.1%	852,677	(1,718,234)	5,976,555	6,215,618
Behavioral Health aid	0.7%	0.0%	493,301	(7,600,000)	1,619,147	1,659,625
Children's Health Insurance (SCHIP)	116.9%	85.6%	7,220,339	11,483,367	1,344,680	1,405,191
Aging Programs	2.7%	2.6%	261,243	267,773	259,370	265,854
Other (Aid-Ind)	--	--	(375,000)	(375,000)	0	0
<u>State Agency Operations</u>						
Employee Salaries (agencies)	2.5%	2.5%	16,944,042	13,257,929	13,823,110	14,168,688
Employee Health Insurance (agencies)	3.2%	5.1%	2,867,883	4,666,828	5,782,483	6,129,431
University/Colleges increased funding	3.4%	4.0%	21,237,141	25,795,207	24,933,576	25,740,330
Operations increase (all agencies)	2.0%	2.0%	6,616,783	366,516	3,110,469	3,172,678
Annualize Justice Reinvestment Act (Courts)	est amt	est amt	1,168,373	7,678	0	0
Juvenile services (Courts)	2.5%	2.5%	1,350,000	1,383,750	1,418,344	1,453,802
Inmate per diem costs (Corrections)	0.0%	0.0%	0	0	1,384,455	1,425,989
Staffing / population costs (Corrections)	est amt	est amt	4,146,901	616,695	0	0
Fund source shifts (DHHS))	est amt	est amt	(954,885)	(318,296)	0	0
Retirement (Schools, Patrol, Judges)	est amt	est amt	1,301,829	1,250,000	0	0
Other (Oper)	est amt	est amt	1,695,001	1,618,221	0	0
<u>Capital Construction</u>						
	Reaff	Reaff	16,996,488	(10,699,650)	(489,469)	(186,506)
<u>Total General Fund-Annual Increase</u>			198,987,343	150,828,986	212,413,551	208,020,072
Biennial Basis			178,831,595	349,816,329	197,212,642	420,433,623

* Included in the salary and health insurance numbers

Aid to Local Governments

State Aid to Schools (TEEOSA)

The agency request basically reflected the 2018 Sine Die TEEOSA estimates for FY20 and FY21 which called for increased TEEOSA aid of \$70.8 million in FY19-20 and \$149.5 million in FY20-21.

These numbers have been revised in the Fall 2018 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 \$1.069 billion for FY2019-20 and \$1.106 billion for FY2020-21.

TEEOSA Summary	All Funds FY2018-19	All Funds FY2019-20	All Funds FY2020-21	All Funds FY2021-22	All Funds FY2022-23
School Disbursements	3.38%	3.54%	2.800%	4.0%	4.0%
Property Valuations (assessed)	2.88%	1.92%	2.16%	1.71%	1.84%
Property Valuations (used in formula)	4.0%	4.7%	4.5%	2.9%	3.0%
Adjusted to Assessed Valuation Ratio	100.70%	100.75%	100.78%	100.78%	100.78%
Cost Growth Factor	3.00%	4.00%	5.00%	5.00%	5.00%
Local Effort Rate	\$1.0203	\$1.000	\$1.000	\$1.000	\$1.000
Total Formula Need	3,535,590,990	3,672,726,508	3,815,389,521	3,968,005,101	4,126,725,306
Effective Yield from Local Effort Rate	2,032,079,444	2,085,964,723	2,179,103,299	2,242,456,052	2,310,288,388
Net Option Funding	102,541,643	110,960,916	114,192,287	118,759,978	123,510,377
Allocated Income Tax	42,333,888	44,873,921	47,566,356	49,469,010	51,447,771
Other Actual Receipts	504,003,571	517,222,944	530,461,000	547,347,455	564,762,722
Community Achievement Plan Aid	6,197,049	6,216,535	6,390,636	6,646,261	6,912,112
Total Formula Resources	2,687,155,595	2,765,239,039	2,877,713,578	2,964,678,756	3,056,921,370
Calculated Equalization Aid	848,435,395	907,487,469	937,675,943	1,003,326,345	1,069,803,936
Net Option Funding	102,541,643	110,960,916	114,192,287	118,759,978	123,510,377
Allocated Income Tax	42,333,888	44,873,921	47,566,356	49,469,010	51,447,771
Community Achievement Plan Aid	6,197,049	6,216,535	6,390,636	6,646,261	6,912,112
Transition Aid	906,222	0	0	0	0
TEEOSA State Aid	1,000,414,197	1,069,538,841	1,105,825,222	1,178,201,595	1,251,674,196
State General Funds	974,507,975	1,042,538,841	1,078,325,222	1,150,289,095	1,223,063,883
Insurance Premium Tax (w/o deficit)	25,000,000	27,000,000	27,500,000	27,912,500	28,610,313
Lottery funds, reorg incentives, transition aid	906,222	0	0	0	0
Total TEEOSA Aid	1,000,414,197	1,069,538,841	1,105,825,222	1,178,201,595	1,251,674,196
Dollar Change from prior year - Total	1,672,443	69,124,644	36,286,381	72,376,373	73,472,601
Percent Change from prior year - Total	0.2%	6.9%	3.4%	6.5%	6.2%
Dollar Change from prior year - GF	841,542	68,030,866	35,786,381	71,963,873	72,774,788
Percent Change from prior year - GF	0.1%	7.0%	3.4%	6.7%	6.3%

Most of the growth in TEEOSA aid over the next biennium is attributed to the expiration of two formula changes enacted two years ago to lower aid at that time; increasing the local effort rate and lowering the allowable growth rate which lowered the cost growth factor to 3% and then 4%. As can be seen in the following table, the data elements in the formula actually resulted in lower state aid especially in

FY2020-21 primarily due to higher valuation growth for residential and commercial/industrial properties coupled with a 2.8% spending growth.

<u>Components of TEEOSA Growth</u>	<u>FY2019-20</u>	<u>FY2020-21</u>
LER back to \$1.00 from \$1.023	29,923,611	32,217,417
Cost Growth factor from 3% to 4% then original 5%	25,113,399	53,078,725
All Other data elements	14,087,633	(49,009,763)
Total Change in TEEOSA Aid	69,124,643	36,286,380

This table simply provides a chronology of the changes to the TEEOSA estimate since Sine Die.

<u>Chronology of TEEOSA Estimates</u>	<u>All Funds FY2018-19</u>	<u>All Funds FY2019-20</u>	<u>All Funds FY2020-21</u>	<u>All Funds FY2021-22</u>	<u>All Funds FY2022-23</u>
NDE Jan 2018 & Sine Die 2018	1,000,414,197	1,070,062,595	1,149,613,260	na	na
Calculation changes when updating new data years	0	131	585,451	na	na
Valuation, 2018 from 1.92% DPAT Est to 1.69% DPAT certified	0	(1,653,745)	(1,792,161)	na	na
Valuation; 2019 (3.5% est to 2.16% DPAT est)	0	0	(9,474,682)	na	na
Spending growth: FY19 4.0% to 2.80% (first budget to budget)	0	0	(33,944,549)	na	na
Income tax (TY2017 +6.0%, TY2018 +4% vsersus 3.5% each yr)	0	204,696	423,251	na	na
Student Growth Adjustment (to NDE)	0	(2,113,466)	(2,202,870)	na	na
New School Adjustment (to NDE)	0	(1,906,924)	(2,111,603)	na	na
Lower SPED Allowance due to lower MIPS	0	61,984	82,243	na	na
Stabilize to FY18-19 recert NEEDS	0	1,119,146	704,303	na	na
Adjust "Other Receipts" (Lowered MIPS by \$5 million)	0	3,764,423	3,942,579	na	na
Adjust Insurance Premium to FY18 actual and NDI estimates	0	0	0	na	na
Total Change - Oct 2018 Joint Meeting	0	(523,754)	(43,788,040)	na	na
October 2018 Joint Meeting	1,000,414,197	1,069,538,840	1,105,825,220	1,178,201,595	1,251,674,196

Special Education

The agency request included a 10% increase for both FY19-20 and FY20-21 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 FY20 and FY21 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 3.6% per year increase.

Homestead Exemption

This program is projected to increase by 2.7% in FY20 and 3.5% in FY19 based on Dept of Revenue best estimate at this time. This could possibly change when final data for FY18-19 is available..

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.

Because agricultural personal property valuation has been relatively flat, the agency request (and projected budget) for FY20 remains at the FY19 baseline level with a 1.1% increase in FY21.

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.

Aid to Individuals/Other

Medicaid

For the upcoming biennium, the projected budget is based on the agency request for eligibility and utilization increases and increase in clawback amounts. Also included is a 2.5% increase in provider rates which were not included in the agency request.

Overall increase in General Funds is 3.6% in FY19-20 which includes \$16.5 million for eligibility and utilization increases, \$5.6 million for clawback increases, and \$21.2 million for provider rates. This is offset by a \$29.8 million reduction in General Funds due to an increase in the federal Medicaid match rate (FMAP).

Also included is a net increase of \$17 million related to the Medicaid expansion initiative which passed November 6, 2018. This first year is just a half year and the impact ramps up in future years. A more detailed review can be found on page 19.

Each year the Federal Medical Assistance Percentage (FMAP) rate changes based on a federal formula based on state personal income and per capita data. The result of these changes are adjustments to the federal government's share of coverage for Medicaid expenses, which in turn impacts the GF for payment of Medicaid services. The final published FMAP for FFY2019 is relatively flat, only increasing by .03% from 52.55% in FFY2018 to 52.58% in FFY2019. The estimated FMAP rate released by FFIS in March of 2018 estimates that Nebraska will see a 1.22% increase in FMAP for FFY2020 to 53.80% for Medicaid. While DHHS request was based on this 53.80% FMAP from March 2018 estimate, subsequent calculations result in an actual FFY2020 match rate of 54.72%. Therefore, the DHHS requested adjustments for the FMAP change have been adjusted accordingly.

This projected status does not include a \$16 million request for a health insurance provider fee in FY20-21. Nebraska (and other states paid tax liabilities for the tax years of 2013 and 2014 prior to a moratorium on this tax effective for the tax years of 2015 and 2016. That moratorium expired for tax year 2017 but the Continuing Resolution passed January 22, 2018 reinstated a moratorium on this tax for calendar year 2018 only. At this time, it's unclear whether the moratorium will be extended.

Medicaid	Previous Biennium		Biennial Budget	
	FY2017-18	FY2018-19	FY2019-20	FY2020-21
Base Year appropriation	850,259,344	850,259,344	849,628,184	849,628,184
Federal match rate (FMAP)	(12,716,384)	(29,492,945)	(29,788,498)	(39,717,998)
Utilization	17,029,722	34,427,687	16,565,074	31,841,006
Cost Increases / Provider Rates	(24,215,008)	(24,215,009)	21,230,276	42,460,552
Increase base of PPS hospitals	2,600,000	2,600,000	0	0
Medicare Part B Premiums (annualize deficit)	5,761,146	5,539,296	0	0
Federal Clawback Increase (annualize defici)	4,399,059	8,228,279	0	0
Fiscal agent for home care	(819,185)	(819,185)	0	0
Terminate the Telligen Contract	(119,648)	(119,648)	0	0
Reduce aid to cover cost of financial auditor contract	(220,000)	(290,000)	0	0
Managed Care Savings, Episodes of Care	(6,114,252)	(6,114,252)	0	0
Increased Medicaid Drug Rebates	(2,300,000)	(2,300,000)	0	0
Rural Health Clinics	(76,160)	(76,160)	0	0
Cap the maximum payment for adult dental at \$750.	(403,374)	(403,374)	0	0
LB 268 Change notification provisions, Medicaid	0	(384,000)	0	0
Clawback (Phased-Down State Contribution)	0	0	5,596,382	6,853,740
Medicaid expansion - new eligibles and woodwork	0	0	19,826,774	49,269,837
Medicaid expansion - savings, pregnant women	0	0	(2,452,021)	(4,904,042)
Medicaid expansion - savings, women with cancer	0	0	(368,338)	(695,145)
Total – New Appropriation	833,065,260	836,840,033	880,237,833	934,736,134
Annual \$ Change (excluding deficits)	(17,194,084)	16,562,924	30,609,649	54,498,301
Annual % Change (excluding deficits)	-2.0%	2.0%	3.6%	6.2%

Children’s Health Insurance (SCHIP)

For the upcoming biennium, the projected budget includes no increase in eligibility and utilization (based on the agency request) and a reduction due to an increase in the basic federal match rate (FMAP). This projected budget includes a 2.5% per year increase in provider rates which was not included in the agency request.

There is a large increase due to the expiration of the enhanced Federal match rate. The Affordable Care Act included an additional 23% enhanced match rate which was added to the basic match rate. In the ACA this was to expire Sept 2019 (end of FFY2019). The SCHIP extension bill passed in January 2018 extended the enhanced FMAP to FFY2020 only, at a 11.5% rate. Additional General Funds to replace the expired enhanced FMAP amount to \$7.5 million in FY19-20 and \$18.4 million in FY20-21.

Public Assistance

For the upcoming biennium, the agency requested no change in funding for this program in either FY19-20 or FY20-21 other than transferring therapeutic foster care funds to the Medicaid program. The request includes no increase for eligibility, utilization, or rate increases.

The projected budget includes no changes in eligibility or utilization but does include 5% per year increase in child care rates and a 2.5% per year increase in other provider rates.

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 2.5% provider rate increase.

Developmental Disability Aid

Funding for developmental disability aid increases by only 0.6% in FY19-20 and -1.1% in FY20-21. This includes funding a rate increase in FY20 (roughly 4% \$5.9 million) related to a revised rate/reimbursement model offset by an increase in the federal Medicaid match rate (-\$5.0 million).

The Division of Developmental Disabilities is currently working with an actuarial firm to study the rates for Medicaid DD Home and Community-Based Services (HCBS) Waivers. The study produced a revised rate/reimbursement model based on the actual costs to provide the services. Implementation of this model would increase the cost of these services to the state by approximately 6.6%. This issue would provide partial funding to implement this rate model. CMS expectation is that states conduct rate studies every five years and, if necessary, rebase rates. Nebraska last performed a rebase study in 2011. The rate methodology from the 2011 study was implemented in July 2014.

The agency request and this projected budget does not include any additional funds for clients transitioning from K-12 programs or 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 or utilization.

The agency did request \$2.9 million in FY2019-20 for a cost model rate increase. This is roughly a 4% increase. With no additional funds in the second year, it relates to a 2% average.

In the second year there is an actual decline in the amount as a \$10 million cost savings is included related to the estimated impact of Medicaid expansion.

Medicaid Expansion

Initiative 427 was a proposal to expand the Medicaid program to cover childless adults, 19 to 64 years of age, under the provisions of the Affordable Care Act (ACA). This ballot initiative was similar to several bills that have been proposed over the past six years.

This initiative was adopted on November 6, 2018 and is therefore included in this projected budget. Because of the short time between this report and its passage, these numbers should be considered as preliminary and still under review. The following table summarizes the estimated gross costs of the expansion and several areas which should experience savings due to the new coverage.

The gross expansion costs are based on the Dept of Health and Human Services analysis of the petition. In their report, DHHS stated that their estimates were built upon analyses of the past legislative proposals and the experience of other states that have opted into the ACA Medicaid Expansion.

The estimated savings are estimates of the Legislative Fiscal Office which are higher than include in the DHHS report, thus the final net cost impact shown in the following table is less than the DHHS report of September 21, 2018.

Medicaid Expansion Costs		FY2019-20*	FY2020-21	FY2021-22	FY2022-23
Gross Expansion Costs					
Additional Enrollees		57,592	70,882	88,602	89,223
Match Rate		90.0%	90.0%	90.0%	90.0%
Per Member Per Month Cost		\$489.59	\$495.26	\$500.91	\$516.69
New Eligibles and Woodwork (aid)					
General	-	19,826,774	49,269,837	62,416,513	64,833,312
Federal	-	149,351,013	371,139,560	470,170,776	488,376,023
Total	-	169,177,787	420,409,397	532,587,289	553,209,335
Administrative Costs					
General	-	1,575,408	2,256,371	2,560,998	2,702,696
Federal	-	3,012,304	2,736,371	3,040,998	3,182,696
Total	-	4,587,712	4,992,742	5,601,996	5,885,392
General	Gross Total	21,402,182	51,526,208	64,977,511	67,536,008
Federal	Gross Total	152,363,317	373,875,931	473,211,774	491,558,719
Total	Gross Total	173,765,499	425,402,139	538,189,285	559,094,727
General Fund Offsets & Savings					
State Disability		(900,000)	(1,800,000)	(1,800,000)	(1,800,000)
AIDS Drugs		(375,000)	(750,000)	(750,000)	(750,000)
Behavioral Health		(2,400,000)	(10,000,000)	(18,000,000)	(18,000,000)
Pregnant Women		(2,452,021)	(4,904,042)	(4,757,819)	(4,757,819)
Women with Cancer		(368,338)	(695,145)	(666,006)	(666,006)
CHIP 599		(9,060)	(8,518)	(1,067)	(1,067)
Subtotal - HHS Savings		(6,504,419)	(18,157,705)	(25,974,892)	(25,974,892)
Subtotal - Corrections		(63,500)	(127,000)	(127,000)	(127,000)
General	Savings Total	(6,567,919)	(18,284,705)	(26,101,892)	(26,101,892)
Federal	Savings Total	0	0	0	0
Total	Savings Total	(6,567,919)	(18,284,705)	(26,101,892)	(26,101,892)
Net Expansion Costs					
General	Net Total	14,834,263	33,241,503	38,875,619	41,434,116
Federal	Net Total	152,363,317	373,875,931	473,211,774	491,558,719
Total	Net Total	167,197,580	407,117,434	512,087,393	532,992,835
Total	Net Total	14,834,263	33,241,503	38,875,619	41,434,116
LFO General Fund Estimates					
Gross expansion costs		21,402,182	51,526,208	64,977,511	67,536,008
Offsetting savings		(6,567,919)	(18,284,705)	(26,101,892)	(26,101,892)
Net GF Costs		14,834,263	33,241,503	38,875,619	41,434,116
DHHS General Fund Estimates (9/21/18 report)					
Gross expansion costs		21,402,182	51,526,208	64,977,511	67,536,008
Offsetting savings		(2,976,668)	(6,823,336)	(8,027,003)	(8,187,542)
Net GF Costs		18,425,514	44,702,872	56,950,508	59,348,466

State Agency Operations

Employee Salary Increases

Although the budget instruction included a 2% per year increase as a “placeholder”, 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 FY2019-20 and FY2020-21 are unknown. However the DAS budget instructions included a 3.3% increase in FY19-20 and an additional 5.2% increase in FY20-21. For state agencies this projected status includes those increases as noted in the budget instructions. Increases were projected to be higher for the University (+3.2% FY20 and +8.2% FY21) and State Colleges (+7.6% each year).

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 projected budget for FY19-20 includes \$1,168,373 as the last year of the five year phase-in for additional probation and court staff.

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 2.5% per year increase for rate increases in this area based on the \$24 million level.

Dept. of Correctional Services

In 2017 the Governor recommended staffing increases funded over two years of the FY18 / FY19 biennial budget. The Legislature enacted the same staffing increases but phased-in over a three year period. The FY2019-20 request and projected budget basically includes those additional staff.

Description	Agency Request		TRR Nov 2018 Meeting	
	FY2019-20	FY2020-21	FY2019-20	FY2020-219
Health Services	1,346,927	97,425	1,346,927	97,425
Cash Fund Appropriation	(4,200,000)	0	0	0
Facility Staffing	231,995	236,625	231,995	236,625
Information Technology - Kronos Upgrade	83,333	41,667	0	0
Information Technology - Shift to CIO	(351,759)	(351,759)	(351,759)	(351,759)
Information Technology Rate Changes	1,449,606	1,461,558	1,449,606	1,461,558
Inmate Programming	250,000	250,000	250,000	250,000
Power Plant	450,000	450,000	450,000	450,000
Rate Changes	482,154	482,154	482,154	482,154
Staffing Analysis	1,867,979	3,729,546	1,867,979	3,729,546
Medicaid expansion - savings	0	0	(63,500)	(127,000)
Salary enhancements above the 2.5%	0	0	0	0
Inmate per diem costs	0	0	0	0
Total - Issues	1,610,235	6,397,216	5,663,402	6,228,549

The agency request and projected budget do not include any increased funding for inmate per diem costs or salary enhancements other than the general 2.5% per year increase built into all budgets.

University of Nebraska and State Colleges

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 (7.6% per year) and University of Nebraska (3.2% FY20 and 8.2% FY21).

Defined Benefit Retirement Plans

The agency request for FY20 and FY21 reflects a modest increase in state support for the defined benefit retirement systems. Overall the increase amounts to \$1.3 million in FY19-20 and \$2.5 million in FY20-21. The agency requested amounts are estimates from the actuaries as to what the funding needs might be. Final funding needs will be communicated in November 2018 following completion of the actuarial experience study and valuations.

Description	Agency Request		TRR Nov 2018 Meeting	
	FY2019-20	FY2020-21	FY2019-20	FY2020-21
2% of Salary-State Schools	1,160,622	1,660,622	1,160,622	1,660,622
2% of Salary-Class V Schools- Omaha	139,424	389,424	139,424	389,424
Omaha Service Annuity Contribution	(218,169)	(193,169)	(218,169)	(193,169)
Additional Contribution Requirement-Judges Plan	57,387	232,387	57,387	232,387
Additional Contribution Requirement-State Patrol	162,565	462,565	162,565	462,565
Total - Issues	1,301,829	2,551,829	1,301,829	2,551,829

Operations Inflation

The projected budget does not include any general inflationary increases for agency operating budgets. The largest increases in operating costs for the FY20/FY21 biennium related to DAS rate charges in a variety of agencies. At a statewide level, these amounted to about a \$3.2 million increase.

Capital Construction

General Fund dollars included in the projected budget for capital construction reflect reaffirmations only. These are dollar amounts needed to complete funding of projects approved in previous legislative sessions. Nothing is included for new projects in FY19-20 or FY20-21. The large increase in FY19-20 relates to the State Capitol HVAC project funding shifting from Nebraska Capital Construction Fund (NCCF) to General Funds.

Appendix A

Projected Budget – November 2018 TRR Meeting

	w/o Deficits FY2018-19	Nov 2018 TRR Estimte		Change over Prior Yr		Change over Prior Yr		2 Yr Avg % Change
		Total FY2019-20	Total FY2020-21	FY19-20 (w/o deficits) \$ %	FY20-21 (w/o deficits) \$ %			
Agency Operations								
University & State /Colleges	626,366,678	647,628,653	673,423,860	21,261,975	3.4%	25,795,207	4.0%	3.7%
Health & Human Services	236,687,805	247,331,903	253,477,697	10,644,098	4.5%	6,145,794	2.5%	3.5%
Correctional Services	211,920,240	222,262,930	226,880,553	10,342,690	4.9%	4,617,623	2.1%	3.5%
Courts	187,043,520	193,179,056	197,381,169	6,135,536	3.3%	4,202,113	2.2%	2.7%
State Patrol	60,309,294	62,257,889	64,496,177	1,948,595	3.2%	2,238,288	3.6%	3.4%
Retirement Board	52,698,171	54,000,000	55,250,000	1,301,829	2.5%	1,250,000	2.3%	2.4%
Revenue	26,728,444	27,452,281	28,316,612	723,837	2.7%	864,331	3.1%	2.9%
Other 40 Agencies	181,704,711	185,719,218	189,250,388	4,014,507	2.2%	3,531,170	1.9%	2.1%
Total-GF Operations	1,583,458,863	1,639,831,930	1,688,476,456	56,373,067	3.6%	48,644,526	3.0%	3.3%
State Aid to Individuals/Others								
Medicaid	849,628,184	880,237,833	934,736,134	30,609,649	3.6%	54,498,301	6.2%	4.9%
Child Welfare Aid	197,071,388	201,070,141	205,810,896	3,998,753	2.0%	4,740,755	2.4%	2.2%
Public Assistance	94,994,043	97,761,836	100,658,001	2,767,793	2.9%	2,896,165	3.0%	2.9%
Developmental disabilities aid	150,279,443	151,132,120	149,413,886	852,677	0.6%	(1,718,234)	-1.1%	-0.3%
Behavioral Health aid	71,872,571	72,365,872	64,765,872	493,301	0.7%	(7,600,000)	-10.5%	-5.1%
Childrens Health Insurance (SCHIP)	6,178,073	13,398,412	24,881,779	7,220,339	116.9%	11,483,367	85.7%	100.7%
Aging Programs	9,845,789	10,107,032	10,374,805	261,243	2.7%	267,773	2.6%	2.7%
Higher Ed Student Aid programs	7,539,030	7,539,030	7,539,030	0	0.0%	0	0.0%	0.0%
Public Health Aid	6,151,907	5,776,907	5,401,907	(375,000)	-6.1%	(375,000)	-6.5%	-6.3%
Business Innovation Act	6,020,352	6,020,352	6,020,352	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	10,216,653	10,216,653	10,216,653	0	0.0%	0	0.0%	0.0%
Total-GF Aid to Individuals/Other	1,415,580,493	1,461,409,248	1,525,602,375	45,828,755	3.2%	64,193,127	4.4%	3.8%
State Aid to Local Govts								
State Aid to SBUools (TEEOSA)	974,507,975	1,042,538,841	1,078,325,222	68,030,866	7.0%	35,786,381	3.4%	5.2%
Special Education	226,526,585	232,189,750	237,994,493	5,663,165	2.5%	5,804,743	2.5%	2.5%
Property Tax Credit Transfer				--	--	--	--	--
Aid to Community Colleges	98,575,874	102,026,030	105,596,941	3,450,156	3.5%	3,570,911	3.5%	3.5%
Homestead Exemption	84,100,000	86,404,090	89,428,233	2,304,090	2.7%	3,024,143	3.5%	3.1%
Personal Property Tax Relief Act	14,200,000	14,200,000	14,355,529	0	--	155,529	100.0%	0.5%
Aid to ESU's	13,085,000	13,425,755	13,775,029	340,755	2.6%	349,274	2.6%	2.6%
High ability learner programs	2,202,384	2,202,384	2,202,384	0	0.0%	0	0.0%	0.0%
Early BUildhood programs	8,274,583	8,274,583	8,274,583	0	0.0%	0	0.0%	0.0%
Community Based Juvenile Services	6,048,000	6,048,000	6,048,000	0	0.0%	0	0.0%	0.0%
Resources Development Fund	3,014,712	3,014,712	3,014,712	0	0.0%	0	0.0%	0.0%
Other Aid to Local Govt	4,970,146	4,970,146	4,970,146	0	0.0%	0	0.0%	0.0%
Total-GF Aid to Local Govt	1,435,505,259	1,515,294,291	1,563,985,272	79,789,032	5.6%	48,690,981	3.2%	4.4%
Capital Construction	21,739,000	38,735,488	28,035,838	16,996,488	78.2%	(10,699,650)	-27.6%	13.6%
Total Appropriations	4,456,283,615	4,655,270,957	4,806,099,941	198,987,342	4.5%	150,828,984	3.2%	3.9%

Appendix B FY2018-19 Deficit Requests (General Fund)

#	Agency	Issue	Fund	Type	\$ Amount
13	Education	Reading Specialist (\$64,019 PSL)	Gen	Oper	100,042
13	Education	TEEOSA Aid; revised Insurance Premium tax	Gen	Aid	(1,901,294)
14	PSC	Commissioner Health Insurance	Gen	Oper	8,185
37	Workers Comp	Reduce cash fund transfer	Gen	Oper	0
Total		Operations	Gen	Oper	108,227
		State Aid	Gen	Aid	(1,901,294)
		Construction	Gen	Const	0
		Total General Fund Deficits	Gen	Total	(1,793,067)

Appendix C

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 (TRRC) 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. LB33 enacted in the 2015 legislative session also required the preparation of a volatility report (now section 50-419.02) and append that report to the TRRC 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