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POLICY INSTITUTE

Clear thinking for
a stronger Nebraska

About OpenSky Policy Institute

The best choices are informed choices and at OpenSky we work to make sure lawmakers and other leaders have quality data and research to make decisions that help our communities thrive.

We are **non-partisan** and focus on **tax, budget, and education finance** policy in Nebraska.

Budget Timeline

Feb. 15- LB 22 signed, reduces appropriations by $160m

April 25- Debate on budget bills began

April 26- Revenue forecast revised

By May 10 (day 80)- budget should be passed

Need **33** votes on final reading to pass with e-clause

Background on Shortfall

- FY16 revenue growth of 0.3%
- FY17 forecasted revenue growth of 1.3%.

3rd lowest back-to-back revenue growth years over the past 36 years

Average annual growth over last ten years (FY06-FY16) has been 2.6%.

$895 m projected budget shortfall heading into session

Proposed FY18/FY19 Budget Growth over FY17

- LFO projected $566m increase needed over FY18-FY19 biennium to maintain current service obligations; 4.5% growth in first year and 3.6% in second year.
- **Governor's proposal**: $70 million increase over biennium, -0.13% decrease in first year, 1.9% growth in second.
- **Final Appropriations budget:** $101 million increase over biennium. 0.3% growth in first year, 1.7% growth in second.

Sources: 2017-19 Executive Budget Recommendations, Department of Administrative Services; Appropriations Committee Preliminary Report; & Appropriations Committee Biennial Budget April 2017, Legislative Fiscal Office:

Comparing Appropriation's Budget to Governor's Proposal

- Landscape has changed since January
  - Revenue forecast has been reduced - $169 million in February and another $55 million in April over three years (FY17-FY19).
  - Increase in funding for Nebraska Families Collaborative - $23 million (child welfare).
  - Bills that created General Fund savings in Governor's budget have not moved in Legislature.
  - Could owe as much as $30m to fed govt. for developmental disabilities

Appropriation's Biennial Budget Highlights, FY18-FY19

Limited budget growth - $101 million over two years instead of LFO-projected $566 million.

- Two year average growth of 0.8%.
- **Third lowest growth in last 17 biennial budgets.**
- $3.5 million available for bills on floor
- Out-year balance (FY21) - $182 M *(assuming 5.1% avg. revenue growth this biennium & 5.9% next)*

With April Revised forecast, a $3.5 million surplus at end of biennium is now a $49.9 million shortfall after accounting for the minimum reserve.

Appropriation's Biennial Budget Highlights, FY18-FY19

Cash Reserve

- $75 million, construction of Correction's Reception and Treatment Center
- $173 million to replenish minimum reserve.
- Cash Reserve Balance - $380M (7% of revenues)

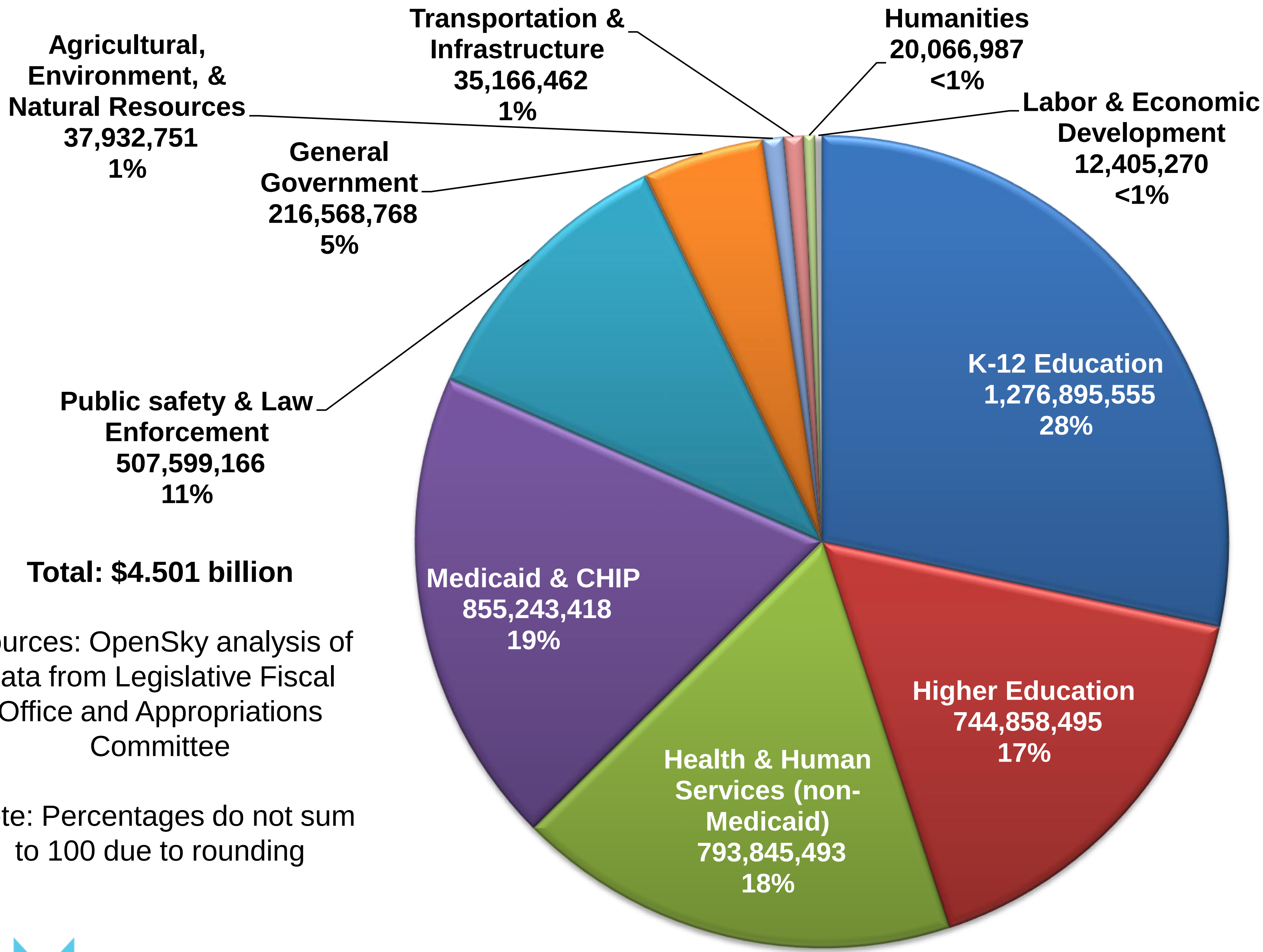
Cash Fund transfers ($208 million)

- $30 million from the Dept. of Roads Operations Fund (leaves gas tax and infrastructure bank untouched.)
- $20 million from the Medicaid Intergovernmental Transfer Trust Fund (Health Care Cash Fund).
- $9 million from Game & Parks (extends earmark).

Property Tax Credit increase – $40M (LB 958, 2016)

Education, Health Care Top Spending

Proposed General Fund Appropriations, FY 18-19



Total: $4.501 billion

Sources: OpenSky analysis of data from Legislative Fiscal Office and Appropriations Committee

Note: Percentages do not sum to 100 due to rounding

Biennium Budget Increases

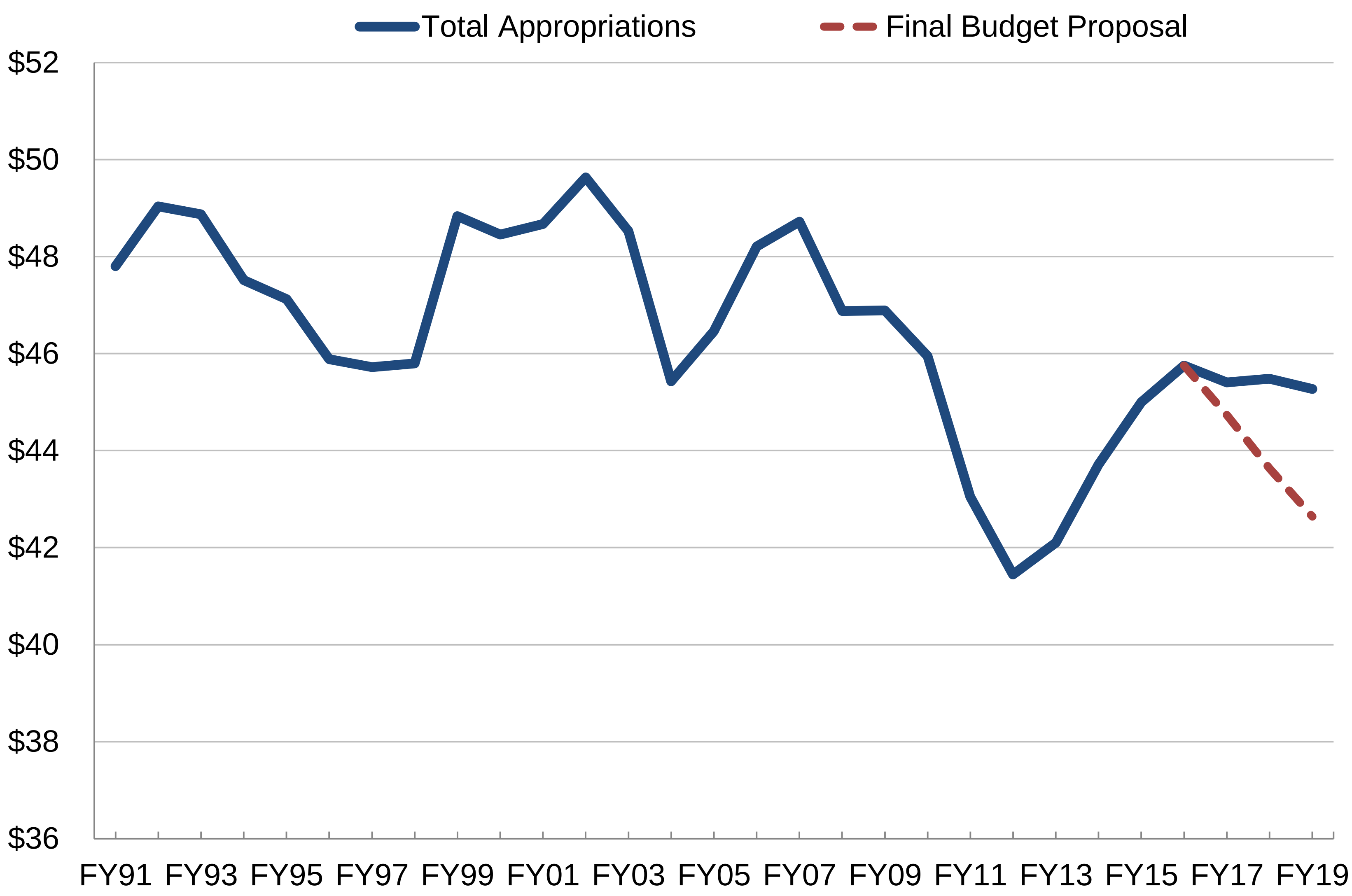
1. TEEOSA School Aid – 1.9% FY18 & 2.8% in FY19 - $62.4M
2. Property Tax Credit increase (LB 958, 2016) - $40M
3. Medicaid (other than FMAP) - $35.6M
4. Salaries and Health Insurance (state agencies) - $32.1M
5. Dept. of Corrections - $15.4M
6. Homestead Exemption - $14.2M

Biennium Budget Decreases

1. Higher federal match for Medicaid & CHIP – ($50.6M)
2. General Agency Budget Reduction (not otherwise listed) - ($24.7M)
3. University General Reduction – ($13M) *receives $3.8M increase for two specific projects*
4. County Jail Housing – ($9.2M)
5. Personal Prop. Tax Relief Act less than projected – ($7.8M)

Budget Proposal would reduce budget as a share of the economy

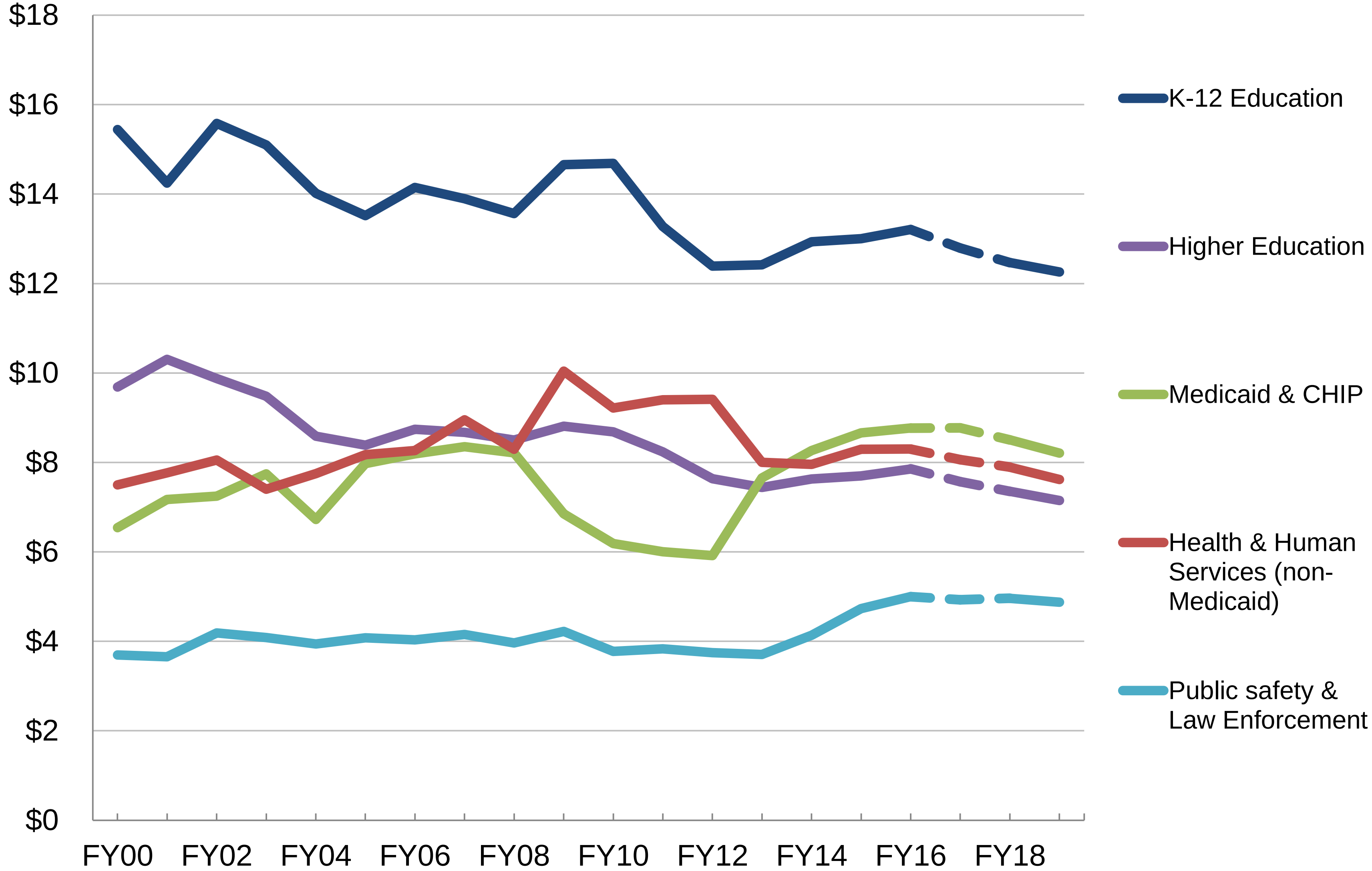
General Fund appropriations per $1,000 NE personal income



Note: FY18-19 Total Appropriations represent the LFO's projection of appropriations needed to fund existing obligations.
Source:. Legislative Fiscal Office, Appropriations Committee Biennial Budget. April 2017

Appropriations Trends in Major Budget Areas

General Fund Appropriations per $1,000 of NE Personal Income, FY00 to FY19



Note; Dashed line represents LB22 and Appropriations Committee proposal April 2017
Sources: NE Legislative Fiscal Office, US Bureau of Economic Analysis, Appropriation Committee Biennial Budget FY18-FY19, April 2017.

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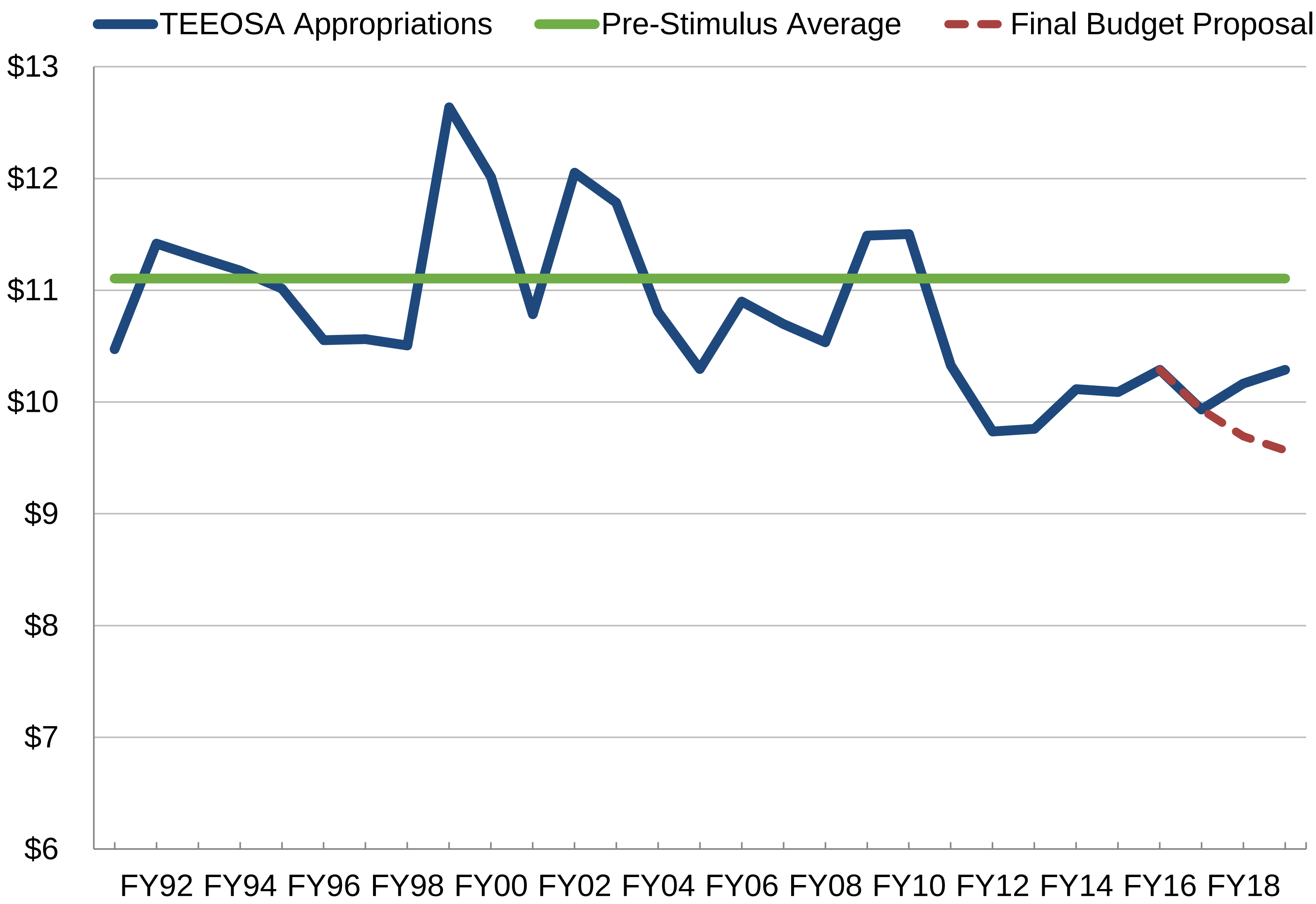
State’s School Funding Commitment will fall to Historic Low

General Fund TEEOSA appropriations per $1,000 NE personal income



Note: FY18-19 K-12 appropriations represents the most recent estimates of TEEOSA under current law.
Source:. Legislative Fiscal Office, Appropriations Committee Biennial Budget. April 2017

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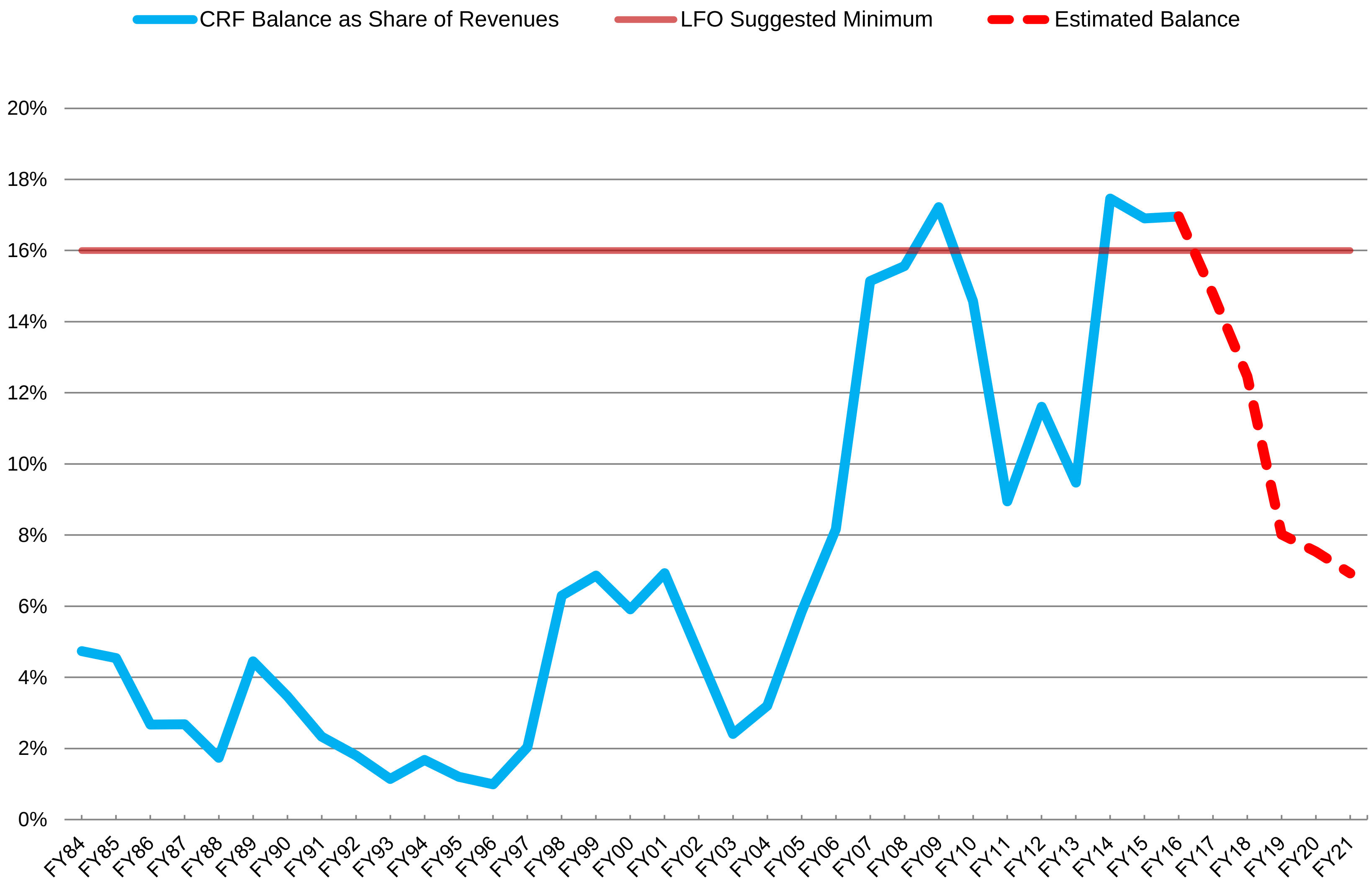
Rainy Day Fund Would Be Reduced Significantly Below Recommended Level

Cash Reserve Fund Balance as Share of General Fund Receipts, FY 84 to FY 21



Sources: Legislative Fiscal Office, Nebraska Economic Forecasting Board

Revenues and Reserves

All of this assumes:

- 5% revenue growth in FY18
- 5.2% revenue growth in FY19
- 5.9% revenue growth in FY20 & FY21

"they do not necessarily reflect robust economic growth coming on the heels of the very low growth in the two prior years"

"within any five-year period, below average revenue growth in some years will be offset by above average growth in others"

What should we be concerned about?

1. Structural issues?
   - Past revenue changes ($755m+ in FY17)
   - GAO – growing fiscal gap
   - Cash reserve
2. Past shortfalls not addressed through cuts alone, grew and lasted 2 biennia
3. Uncertainty at federal level
4. Tax cuts?

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