

The following is a Q&A related to the state budget, the Governor's budget vetoes and the Legislature's potential veto overrides.

What is the impact of the Governor's vetoes and what happens next?

Many state agencies — including the university, state college and community college systems — would see additional 0.5 percent reductions in funding under [line-item budget vetoes made by the governor](#). In total, the vetoes would result in an additional \$7.3 million in cuts to higher education over the next biennium.

Furthermore, the vetoes would reduce provider rate funding by more than \$16.8 million per year and cut \$11.06 million in funding for the replacement of the State Capitol's heating and air conditioning system. In total, the Governor's vetoes would cut about \$56.5 million in General Fund appropriations from the budget approved by the Legislature last week. The vetoes also make adjustments to some funds within the Department of Roads budget.

On Tuesday, the Appropriations Committee proposed about \$32.7 million in overrides for the next biennium. The committee's overrides would restore funds for providers of Medicaid, behavioral health and developmental disability services as well as probation services. The committee's overrides would not reverse most of the vetoes making additional 0.5 percent reductions in funding for various agencies, vetoes that reduce funding for higher education or child welfare service provider payments, vetoed funding for the State Capitol's HVAC system or the Governor's adjustments to the Department of Roads budget. Debate on budget veto overrides will be held Wednesday.

What is the minimum reserve, and how have recent budget actions of the Legislature and the Governor affected it?

The minimum reserve is a statutorily-required buffer¹ in the General Fund, amounting to 3 percent of revenue estimated for the biennium,² to ensure the state is able to pay its bills and meet its obligations. The goal is to set aside cash to accommodate fluctuations in revenue and spending over the biennium. [LB331](#), which was enacted by the Legislature, includes a provision to temporarily reduce the minimum reserve requirement from 3 percent to 2.5 percent for FY18 and FY19. As of May 9, the day the mainline budget was passed by the Legislature, the estimated General Fund balance at the end of FY19 was \$4.7 million above the minimum reserve with the reserve requirement set at 2.5 percent - this is in addition to a proposed Cash Reserve Fund balance of \$379.6M.

¹ Nebraska Revised Statute 77-2715.01

² LFO calculates the minimum reserve against 3 percent revenue, including the biennium General Fund beginning balance, automatic cash reserve transfers, General Fund revenues, and the sum of transfers into the General Fund. LFO interpretation of the statute is that tax rates must be set such that the state collects enough revenue to pay for appropriations plus the 3 percent minimum reserve.

The governor opposes the change to the minimum reserve and made line item vetoes to cut appropriations to a level that would have satisfied the 3 percent minimum reserve requirement, if it were still in effect. The line item vetoes, if sustained, will bring the anticipated General Fund ending balance at FY19 to \$46.6 million above the 2.5 percent minimum reserve or \$3.3 million above the 3 percent minimum reserve. The governor's line item vetoes do not actually reinstate the 3% minimum reserve but instead, will result in a greater positive balance reflected on the General Fund Financial Status ("Variance from the Minimum Reserve").

There has been a lot of concern about April receipts and talk of a Special Session. What happens if FY17 revenues do not meet the projections? What does that mean for the FY18 & FY19 budget?

The current [General Fund Financial Status](#)³ shows an anticipated General Fund ending balance for FY17 of \$31.6 million. This accounts for the most recent revision of revenue forecasts by the Nebraska Economic Forecasting Advisory Board (NEFAB) at the end of April.

The state must collect \$835.6 million total in May and June to meet the FY17 revenue forecast of \$4.3 billion, as revised in April. The state collected \$793 million over the same period last year, and to meet the forecast, the state would need to see 5.3 percent revenue growth over last year's May and June collections.

Assuming state agencies spend the funds they have been appropriated this fiscal year but not a penny more, the \$31.6 million is the amount the state could afford to miss the revenue forecasts for the remainder of this fiscal year, while keeping the General Fund in the black. If the state misses the May and June forecasts by more than \$31.6 million, the director of the Department of Administrative Services has the authority to execute a transfer from the Cash Reserve Fund to balance the General Fund before the end of the fiscal year.

Changing the FY18/19 biennial budget has no impact on the General Fund balance on the close of this fiscal year on June 30.

How often do actual revenues come in less than forecast?

Revenue projections are an estimate, not an exact science. Over the last 22 months, the actual revenues have been below forecast 14 times and above forecast 8 times.⁴

³ As of May 15, 2017.

⁴ During four of the 14 months in which actual receipts were less than forecast, the NEFAB met and cut the forecast which resulted in a recertified forecast that took effect for the month following the NEFAB meeting.

What do the vetoes mean for funding in major General Fund budget areas?

The governor vetoed \$56.5 million in General Fund appropriations in the upcoming biennium. Many of these cuts came from the Department of Health and Human Services and Higher Education. In Medicaid alone, the governor vetoed \$23.6 million over the biennium.⁵ The Medicaid vetoes would result in a proposed 2 percent cut to Medicaid in FY18 and only a 0.5 percent increase from FY18 to FY19. In total, Medicaid would receive \$30.3 million less in appropriations than if it had been held flat at FY17 appropriation levels.⁶ DHHS operations received a \$1.1 million veto which results in a 0.3 percent cut to operations in FY18, as opposed to the 0.1 percent cut that was in LB 327 as passed; growth in FY19 remains the same as passed in LB 327, which was 1.8 percent.⁷

The governor also vetoed funds to higher education. The University received a \$5.8 million veto on top of the \$9.2 million cut it was already taking.⁸ This is equal to a 2.1 percent cut in FY18, instead of the 1.6 percent cut in LB 327. Growth in FY19 remains the same as passed in LB 327, which was 1.7 percent. If the veto is sustained, the University would receive \$15 million less over the biennium than if it had been held flat at FY17 appropriation levels.⁹ State colleges received a \$524,042 veto.¹⁰ Instead of being held flat over the biennium as passed in LB 327, they receive a 0.5 percent cut in FY18 and are then held flat at this reduced appropriation level in FY19.¹¹ The community colleges also received a veto equal to \$1 million.¹² Instead of being held flat in FY18, they would receive a 0.5 percent cut. In total, they would receive \$2 million less over the biennium than if they had been held flat at FY17 appropriation levels.¹³

⁵ Office of the Governor, LB 327 Veto Letter, May 15, 2017, p. 4,

https://governor.nebraska.gov/sites/governor.nebraska.gov/files/doc/press/LB327e%20Veto%20Letter_0.pdf.

⁶ State of Nebraska FY2017-18/FY2018-19 Biennial Budget, As Proposed by the Appropriations Committee 105th Legislature - First Session, April 2017, p. 29, <http://www.nebraskalegislature.gov/pdf/reports/fiscal/2017proposed.pdf>.

⁷ Office of the Governor, LB 327 Veto Letter, May 15, 2017, p. 4,

https://governor.nebraska.gov/sites/governor.nebraska.gov/files/doc/press/LB327e%20Veto%20Letter_0.pdf. & State of Nebraska FY2017-18/FY2018-19 Biennial Budget, As Proposed by the Appropriations Committee 105th Legislature - First Session, April 2017, p. 63, <http://www.nebraskalegislature.gov/pdf/reports/fiscal/2017proposed.pdf>.

⁸ Office of the Governor, LB 327 Veto Letter, May 15, 2017, p. 5,

https://governor.nebraska.gov/sites/governor.nebraska.gov/files/doc/press/LB327e%20Veto%20Letter_0.pdf.

⁹ State of Nebraska FY2017-18/FY2018-19 Biennial Budget, As Proposed by the Appropriations Committee 105th Legislature - First Session, April 2017, p. 64, <http://www.nebraskalegislature.gov/pdf/reports/fiscal/2017proposed.pdf>.

¹⁰ Office of the Governor, LB 327 Veto Letter, May 15, 2017, p. 5,

https://governor.nebraska.gov/sites/governor.nebraska.gov/files/doc/press/LB327e%20Veto%20Letter_0.pdf.

¹¹ State of Nebraska FY2017-18/FY2018-19 Biennial Budget, As Proposed by the Appropriations Committee 105th Legislature - First Session, April 2017, p. 64, <http://www.nebraskalegislature.gov/pdf/reports/fiscal/2017proposed.pdf>.

¹² Office of the Governor, LB 327 Veto Letter, May 15, 2017, p. 5,

https://governor.nebraska.gov/sites/governor.nebraska.gov/files/doc/press/LB327e%20Veto%20Letter_0.pdf.

¹³ State of Nebraska FY2017-18/FY2018-19 Biennial Budget, As Proposed by the Appropriations Committee 105th Legislature - First Session, April 2017, p. 65, <http://www.nebraskalegislature.gov/pdf/reports/fiscal/2017proposed.pdf>.

The Legislature’s budget had an average of 1 percent annual growth. If all of the governor’s vetoes were sustained, average annual General Fund budget growth would be 0.6 percent. How does this compare to recent and historical averages?

The Legislature’s budget would result in an average annual budget growth of 1 percent.¹⁴ This was already low relative to the ten year historical average annual growth (FY06- FY16) of 3.7 percent. If the Governor’s vetoes are sustained, instead of 1 percent, the

¹⁴ State of Nebraska FY2017-18/FY2018-19 Biennial Budget, As Proposed by the Appropriations Committee 105th Legislature - First Session, April 2017, p. 2, <http://www.nebraskalegislature.gov/pdf/reports/fiscal/2017proposed.pdf>.