



Clear thinking for
a stronger Nebraska

About OpenSky Policy Institute

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

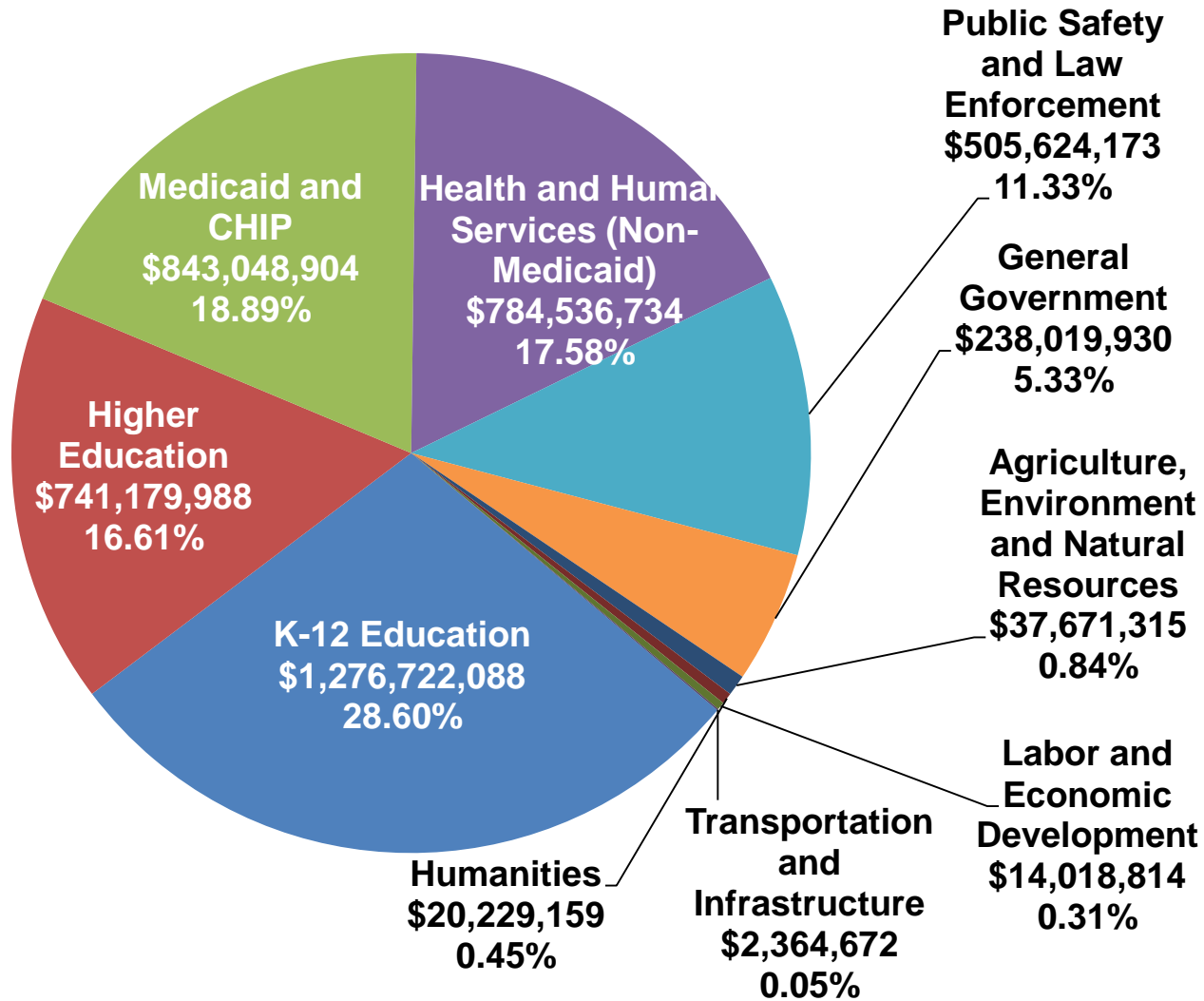
We are **non-partisan** and focus on **tax, budget, and education finance** policy in Nebraska.

Today's Presentation:

- Brief budget overview
- Review of revenue situation
- Brief overview of federal tax changes

Education, Health Care Top Appropriations

General Fund Appropriations, FY 18-19



Total: \$4.463 billion

Source: OpenSky analysis of data from Legislative Fiscal Office. Note: Percentages do not sum to 100 due to rounding

Budget Actions - 2017 Session

\$895M Budget Shortfall – Jan 2017

- FY18/19 Biennial budget growth 0.6% for biennium (compared to 4.1% projected)
- Largest Reductions – University & DHHS
- Lower spending on K-12 education (LB409)
- Transfers from cash funds (almost \$200M)
- \$173M from Cash Reserve

Source: Legislative Fiscal Office, “State of Nebraska FY2017-18/FY2018-19 Biennial Budget,” August 2017.

Current Revenue Situation

- Revenue was \$34m below forecast for FY17
- Forecasting board met in Oct and revised down FY18 (-\$100m) & FY19 (-\$123M) forecasts
- Budget shortfall of approx. \$207M for FY18 & FY19 biennium
- Revenue growth targets for biennium: 3.3% in FY18, 4.8% in FY19

Why is Revenue Struggling?

- Ag economy
- Past tax cuts
- Tax incentives (spiked \$160m in 2016 for a total of \$295m)
- Base issues (i.e. services, online sales)
- Tax planning

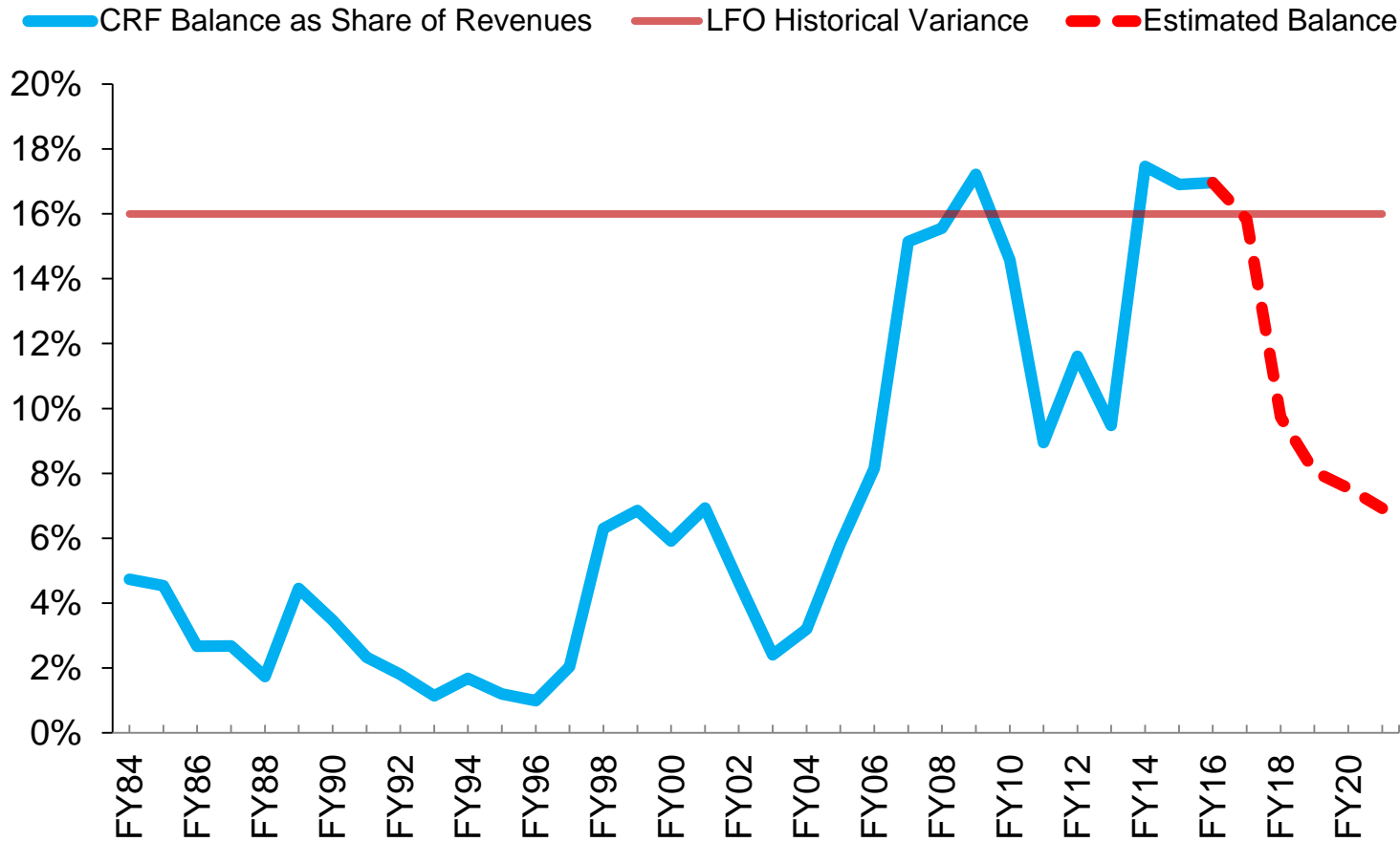
Major Tax Changes Since 2006

Legislative Tax Changes '06-'15*	Impact to FY17 Revenue
Direct Revenue Impact to the State	-\$487,562,517
<u>By Tax Type:</u>	
Individual Income Tax	-\$267,949,523
Corporate Income Tax	-\$7,679,793
Sales Tax	-\$180,927,783
Miscellaneous Tax	-\$31,005,418
Indirect Revenue Impact to the State (property tax)	-\$267,370,320
Total Revenue Impact (FY17)	-\$754,932,837

*Does not include Nebraska Advantage

Rainy Day Fund Departing from Minimum Recommended Levels

Cash Reserve Fund Balance as Share of General Fund Revenue, FY 83-84 to FY 20-21



Sources: Legislative Fiscal Office, Nebraska Economic Forecasting Advisory Board

Implications of tax changes and budget cuts at the federal level

Major Federal Tax Changes

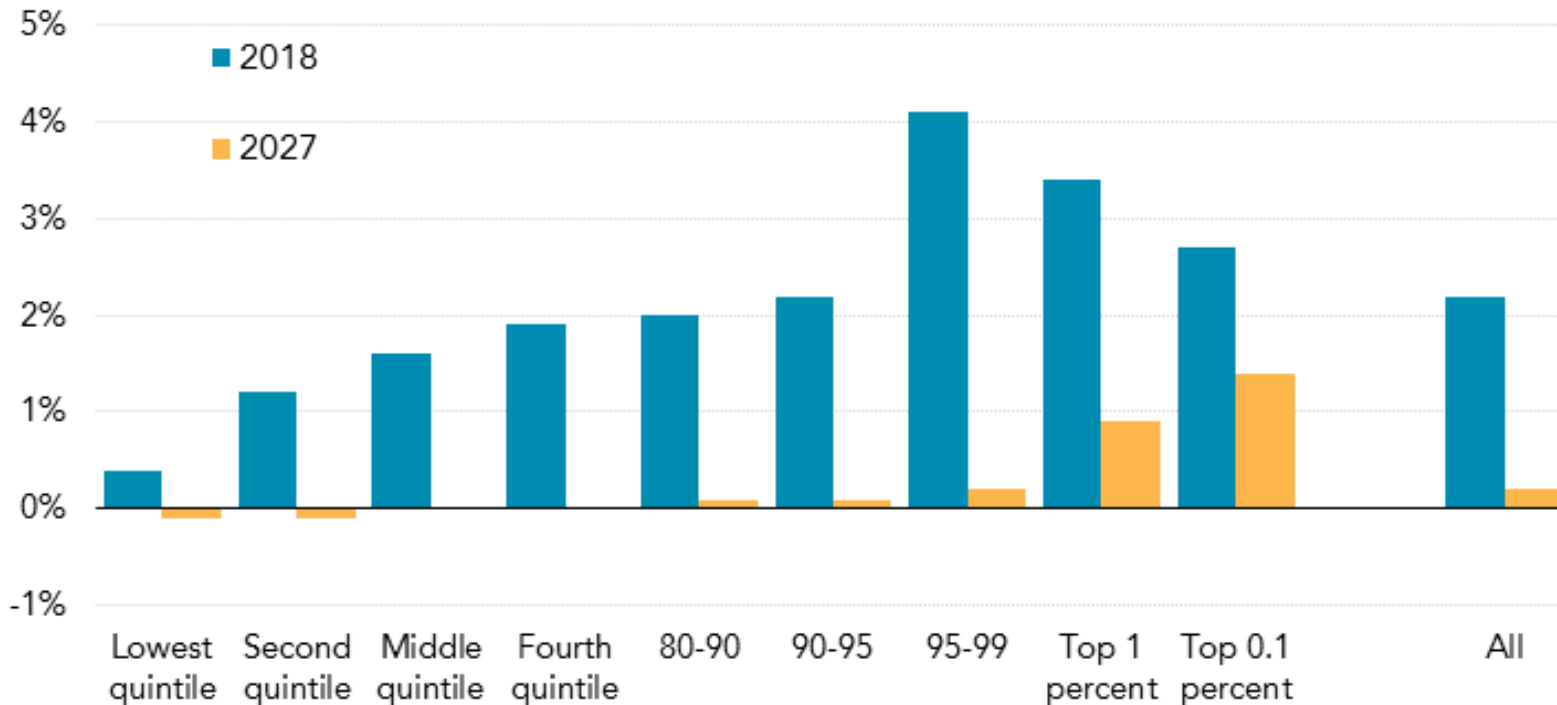
- Modifies individual brackets, top rate from 39.6% to 37%
- Lowers the corporate income tax rate (CIT) from 35% to 21%
- Lowers taxes on pass-through businesses that don't pay the CIT by creating a deduction for 20% of income up to \$315,000
- Creates immediate expensing for 5 years
- Creates higher exemption levels for the alternative minimum tax (AMT) & eliminates corporate AMT
- Repeals personal exemptions & nearly doubles standard deduction
- Limiting itemized deductions – SALT, mortgage, for ex.
- Increases Child Tax Credit from \$1k to \$2k, increases refundability; creates \$500 credit for non-child dependents
- Repeals the individual mandate under the ACA
- Nearly doubles estate tax exemptions (\$11.2M/\$22.4M)
- Changes inflation measure to chained CPI

TPC: Most benefits of TCJA go to \$300k+



FIGURE 1

Percent Change in After-tax Income of the Conference Agreement for the Tax Cuts and Jobs Act
By expanded cash income percentile, 2018 and 2027



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

Budget Resolution

- Instructions allow for \$1.5 trillion in tax cuts to be added to the debt
- Instructions also outline the following cuts:
 - More than \$1 trillion from Medicaid over the next ten years
 - Nearly \$500 billion from Medicare
 - \$400 million from Social Security in 2018 alone
 - Unspecified amounts in SNAP and housing assistance

Other Ramifications?

- Federal budget cuts may reduce federal funding to the state (30% of total state budget)
 - Primarily in HHS and education
 - Of 77 state agencies, 34 receive some fed. funds
- Highly coupled - federal changes may automatically impact state revenues
 - 2002 Bush tax cuts were estimated to reduce Nebraska income tax revenue by \$416M between FY02 and FY07; because of state actions to decouple, actual revenue lost was \$84M.
- One-time revenue surge from tax planning that could be mistaken for permanent impact?

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