

[Nebraska's May tax receipts](#) left some lawmakers [with a relatively optimistic outlook](#) for state revenues despite the nation having officially entered a recession.<sup>1</sup> However, there are multiple reasons for lawmakers to proceed with caution and fiscal restraint as they prepare to resume the 2020 legislative session.

### **June tax collections will need to outpace historical average to meet forecast**

Statute dictates that monthly tax receipt releases are to be compared to the current certified forecast from the Nebraska Economic Forecasting Advisory Board (NEFAB),<sup>2</sup> which

is the forecast the board made in April of 2019. NEFAB revised its forecasts upward in October of last year and February of this year but upward revisions are not recertified.

The pre-COVID February forecast is \$276 million greater (5.6%) than the certified forecast for FY 20.<sup>3</sup> The February forecast also is used in the Legislature's [most recent General Fund Financial Status](#), which shows a projected surplus of \$134 million at the end of FY 21 and has been the basis for legislative discussions around property tax proposals and tax incentives. When FY 20 year-to-date tax receipts are compared to the February forecast, the state's fiscal picture starts to dim.

In order to meet the February forecast, June collections will need to be at least \$774 million, which is 65% higher than the previous three-year historical average for June. Similarly, tax collections in June -- the final month of the fiscal year -- will need to total \$498 million to avoid a shortfall. This would be more than 6% greater than the previous three years' historical average for June.

### **Loss of big events will reduce revenue receipts in June**

While personal income tax receipts are likely to be above forecast in June due to the income tax filing extension, the cancellation of several large events, such as the College World Series and Olympic swim trials, will have a negative impact on tax receipts, making it unlikely that collections will match either the certified or revised February forecast.

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<sup>1</sup> National Public Radio, "It's Official: US Economy Is In a Recession," accessed at <https://www.npr.org/sections/coronavirus-live-updates/2020/06/08/872336272/its-official-scorekeepers-say-u-s-economy-is-in-a-recession> on June 16, 2020.

<sup>2</sup> Neb. Rev. Stat. 77-4602 (1).

<sup>3</sup> Calculated by taking the percent difference between the certified forecast and the February 2020 forecast. Certified forecast: Nebraska Legislature, "State of Nebraska FY2019-20/FY2020-21 Biennial Budget," August 2019, page 8, accessed at <https://nebraskalegislature.gov/pdf/reports/fiscal/2019budget.pdf> on June 18, 2020. February forecast: Nebraska Legislature, "General Fund Financial Status," March 24, 2020, accessed at <https://nebraskalegislature.gov/FloorDocs/Current/PDF/Budget/status.pdf> on June 18, 2020. Both NEFAB forecast numbers from line 9 of the General Fund Financial Status in each document for FY 20.

## **CARES Act tax changes, record unemployment also could have major revenue ramifications in FY 21 and beyond**

Looking ahead, several other factors will impact state revenues. While the General Fund Financial Status shows a \$134 million projected surplus in FY 21, cancelled summer events and depressed income tax receipts in 2021 because of the record state unemployment<sup>4</sup> will most certainly wipe out any possibility of that surplus materializing. With the Congressional Budget Office predicting a long national recovery, Nebraska is likely to face a rocky fiscal situation for the foreseeable future.<sup>5</sup>

Furthermore, changes to the federal tax code contained in the Coronavirus Aid, Relief, and Economic Securities (CARES) Act will lower state revenue collections by \$250 million over the next three fiscal years, according to a [report released last month by the Department of Revenue](#). These losses are in addition to any revenue losses from reduced economic activity and the only way for the state to avoid a negative impact would be to decouple from the federal tax code.

### **Conclusion**

The effects of the pandemic are still unfolding but it's becoming clearer that a multitude of factors are leading the state toward major fiscal challenges for the foreseeable future. Approaching the final 17 days of the legislative session with caution, will help lawmakers ensure the health of our state, its residents and our economy as we continue to navigate this unprecedented time in our state's history.

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<sup>4</sup> Omaha World Herald, Nebraska unemployment rate hits new record but is third lowest in nation, accessed at [https://www.omaha.com/news/local/nebraska-unemployment-rate-hits-new-record-but-is-third-lowest-in-nation/article\\_b3e7a487-4a6d-5436-97ef-ca364449ebd8.html](https://www.omaha.com/news/local/nebraska-unemployment-rate-hits-new-record-but-is-third-lowest-in-nation/article_b3e7a487-4a6d-5436-97ef-ca364449ebd8.html) on June 17, 2020

<sup>5</sup> Congressional Budget Office, "Interim Economic Projections for 2020 and 2021," accessed at <https://www.cbo.gov/publication/56368> on June 17, 2020.