open sky POLICY INSTITUTE

The amended LB 1107, which could cost $150 million in FY 21 and potentially exceed $375 million in the upcoming biennium, only offers about $15 million annually in new revenue to defray its cost. This makes it unclear how the new spending bill would be funded. It has been suggested that the Legislature could cover its initial price tag by relying heavily on one-time funding such as unspent agency funds, Cash Reserve Fund transfers, a short-term boost in federal Medicaid dollars, and federal Coronavirus Relief Funds, assuming that Congress passes legislation to allow states to use them for non-COVID purposes.

But even if these one-time funding sources are enough to fund it in the upcoming biennium, the passage of LB 1107 would only add to the already-sizeable gap between projected appropriations and revenue shown in the current General Fund Financial Status.[1] If LB 1107 is passed, it could grow the state's gap in funding to nearly $840 million.[2] Furthermore, the Coronavirus Relief Fund would likely be a significant component of the one-time funding and yet there is no guarantee the state will be able to use this federal aid to help offset the cost of LB 1107.

How LB 1107's costs increase

The bill's price tag will grow through provisions that steadily increase the refundable income tax credit and the amount of credits available under the ImagiNE Nebraska Act, as well as the onset of funding for the UNMC NExT project. There are expected amendments to the proposal -- including ensuring increases in the $125 million refundable income tax credit in years two through four are based on *budget growth* in excess of 3.5%, not net revenue growth, as the proposal is currently written. Such an amendment, however, would not impact the baseline cost of the bill in years one through four -- when the credit is required to be at least $125 million each year -- and in year 5 -- when the credit is required to be $375 million -- and beyond.

The proposal's cost in the FY 24/FY 25 biennium could top $1 billion. This includes $375 million being dedicated to the refundable income tax credit in FY 24 and $375 million plus the growth in property valuation in FY 25. The ImagiNE investment could exceed $250 million over that biennium if unspent base authority is carried forward.

The program's cost in the following biennium -- FY 26/FY 27 -- could exceed $1.3 billion. The refundable income tax credit will continue to compound from the $375 million based on valuation growth and ImagiNE's cost would increase to 3% of net receipts with the

[1] Nebraska Legislature, "General Fund Financial Status", Aug. 6, 2020, accessed at https://www.nebraskalegislature.gov/FloorDocs/Current/PDF/Budget/status.pdf on August 10, 2020.
[2] To calculate the gap, we add to the current projected gap: $125 million to each year of the next biennium for the refundable income tax credit, and also assume that the ImagiNE Nebraska Act reaches the base authority -- or cap -- in each of the years, totaling $125 million for the program ($25 million in FY 22 and $100 million in FY 23). It also assumes that the $90 million surplus for the current biennium is spent -- which increases the following biennium gap -- and a $30 million savings from the repeal of the personal property tax exclusion.

ability for unspent funds from previous years to carry forward.[3] The Legislature also could start paying out $300 million toward the UNMC NExT project this biennium, as well.

Baseline income tax credit funding would occur regardless of state's fiscal condition

It's important to note that the baseline funding for the refundable income tax credit of $125 million for years one through four and of $375 million each year thereafter would occur regardless of the state's fiscal condition. The only variable aspect of the income tax credit provision is the potential funding above $125 million in years two through four.

Conclusion

Without any additional revenue to offset the program's continually growing cost, the state will face a fiscal cliff. This will result in the Legislature having to raise revenue or cut services like health care and education, which are essential to a strong economy.

[3] The base authority -- or cap -- as defined in the bill specifies the amount of money available for credits and refunds in each year. Any unused base authority from a year carries forward to subsequent years -- as the bill is currently written -- which means that a year's base authority may actually exceed the maximum amount specified. The language of the current proposal doesn't allow the base authority to exceed $400 million prior to 2026, but stipulates no limit after 2026.