

Tax Rate Review Committee

November 2023

**Required November Meeting
Pursuant to Section 77-2715.01**

**Speaker of the Legislature
Acting Executive Board Chair
Appropriations Committee Chair
Revenue Committee Chair
Tax Commissioner**

**Senator John Arch
Senator Ray Aguilar
Senator Robert Clements
Senator Lou Ann Linehan
James Kamm**

Prepared by the Legislative Fiscal Office

Summary

This report includes a current projected General Fund Financial Status for the FY2023-24 and FY2024-25 Biennial Budget. For planning purposes, this report also incorporates an estimated financial status for the "out years," FY2025-26 and FY2026-27 biennium. Assumptions for construction of the status for the upcoming biennium and estimates for the following biennium are discussed individually later in this report.

These estimates are based on (1) current law, (2) October Forecast Board projections for FY2023-24 and FY2024-25, (3) revenue projections for the following biennium, and (4) an assessment of General Fund appropriations under current law using both agency requests and historical trends.

Projected Surplus

The projected financial status shows an ending balance \$379.5 million above the minimum reserve for the upcoming FY23-24/FY24-25 biennial budget. This is about \$40 million higher than what was shown on the prior financial status. The change is mostly due to: changes in the General Fund revenue forecast; the actual amount of lapsed General Fund appropriations from FY22-23 (\$126.4 million) exceeding the estimated \$90 million; and changes in TEEOSA state aid and special education aid.

Revenue Growth

Revenue for FY2023-24 and FY2024-25 are the October 2023 forecasts from the Nebraska Economic Forecast Advisory Board (NEFAB). Revenue growth (adjusted for rate and base changes) implied by these current forecasts is 6.1% in FY2023-24 and 3.4% in FY2024-25, for a two year average of 4.8%. Actual revenue growth for FY22-23 was 1.9%.

LFO Prelim estimates for FY2025-26 and FY2026-27 are the average of all forecasts (LFO S&P GLOBAL, LFO Moody's, NDR S&P GLOBAL, and NDR Moody's). Rate and base adjusted growth in FY2025-26 is 4.2% and in FY2026-27 is 3.6% for a two year average of 3.9%. Five year average growth for the status period is 3.8%.

Spending Growth

For FY23-24/FY24-25 biennium, the amounts are the enacted budget, and the adjustments shown are related to changes in TEEOSA State Aid and special education reimbursement amounts. Projected increases for the following biennium (FY25-26/FY26-27) are based on historical averages and anticipated increases due to enacted legislation.

Cash Reserve Fund

In this financial status, the unobligated ending balance in the Cash Reserve Fund (CRF) is projected at \$858.3 million for FY23-24 and \$839.7 million for FY24-25. The revised October 2023 forecast increased the FY2023-24 forecast by \$7.874 million above the certified forecast. Please note that this increase in the Cash Reserve Fund is based on the current forecast. Actual amounts will not be known until FY23-24 is completed.

General Fund Financial Status

Table 1 includes the current projected General Fund Financial Status including, for planning purposes, an estimated financial status for the following biennium. Assumptions for construction of the status and estimates for the following biennium are discussed individually later in this report.

Table 1 Projected General Fund Financial Status

General Fund Financial Status (With FY2022-23 Actual Revenue & Expenditures)

	Actual FY2022-23	Upcoming Biennium FY2023-24 FY2024-25		Est for Following Biennium FY2025-26 FY2026-27	
1 BEGINNING BALANCE					
2 Beginning Cash Balance	2,494,107,852	1,853,785,088	659,513,800	725,146,788	688,393,142
3 Cash Reserve transfers-automatic	(1,287,998,995)	(2,982,492)	(7,874,000)	0	0
4 Carryover obligations from FY23	0	(555,832,617)	0	0	0
4a Lapse FY23 carryover obligations	0	126,449,292	0	0	0
5 Allocation for potential deficits	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
6 Unobligated Beginning Balance	1,206,108,857	1,416,419,271	646,639,800	720,146,788	683,393,142
7 REVENUES & TRANSFERS					
8 Net Receipts	6,367,982,492	6,445,000,000	6,365,000,000	6,359,890,000	6,267,132,000
9 General Fund transfers-out (current law)	(518,053,459)	(1,399,760,000)	(946,009,886)	(944,137,382)	(968,066,840)
10 General Fund transfers-in (current law)	in forecast	in forecast	in forecast	0	0
11 Cash Reserve transfers	(50,000,000)	(440,000,000)	1,000,000	0	0
12 Accounting Adjustment	1,937,066	0	0	0	0
13 General Fund Net Revenues	5,801,866,099	4,605,240,000	5,419,990,114	5,415,752,618	5,299,065,160
14 APPROPRIATIONS					
15 Expenditures / Appropriations	5,154,189,868	5,125,672,253	5,125,672,253	5,125,672,253	5,125,672,253
16 Mainline Budget and A bills (2023 session)	0	223,762,168	244,673,628	244,673,628	244,673,628
17 Projected budget increase, following biennium	0	0	0	135,677,187	265,963,060
18 2024 TEEOSA/SPED Aid revisions (Nov 2023)	0	12,711,050	(28,862,755)	(58,516,804)	(61,917,044)
19 2023 State Claims	0	0	0	0	0
20 2024 "A" Bills	0	0	0	0	0
21 Mid-biennium Adjustments (2024)	0	0	0	0	0
22 General Fund Appropriations	5,154,189,868	5,362,145,471	5,341,483,126	5,447,506,264	5,574,391,897
23 ENDING BALANCE					
24 \$ Ending balance (per Financial Status)	1,853,785,088	659,513,800	725,146,788	688,393,142	408,066,405
25 \$ Ending balance (at Min. Reserve 3.0%)			345,674,526		333,202,851
26 Excess (shortfall) from Minimum Reserve			379,472,263		74,863,554
27 Biennial Reserve (%)			6.5%		3.7%
General Fund Appropriations					
28 Annual % Change - Appropriations (w/o deficits)	6.4%	4.6%	-0.4%	2.0%	2.3%
29 Two Year Average	3.5%	--	2.1%	--	2.2%
30 Est Revenue Growth (rate/base adjusted)	1.9%	6.1%	3.4%	4.2%	3.6%
31 Two Year Average	10.4%	--	4.8%	--	3.9%
32 Five Year Average	9.6%	--	8.8%	--	3.8%
33 Unadjusted % change over prior year	0.3%	1.2%	-1.2%	-0.1%	-1.5%
34 On-Going Revenues vs Appropriations	726,193,847	(316,905,471)	77,506,988	(31,753,646)	(275,326,737)

Changes to the Financial Status

The General Fund Financial Status for the FY24/FY25 biennium has improved since the July meeting of the Tax Rate Review Committee as shown below. The largest changes in the financial status include the change in the FY2022-23 lapsed appropriations, the change in TEEOSA aid estimates, and revenue estimates.

Actual FY2022-23 lapsed appropriations

In the July 2023 projected financial status it was estimated conservatively that \$90 million of unexpended General Fund appropriations would expire or lapse. Actual numbers for lapsed appropriations would not be available until the encumbrance process was completed in September. The final calculation of FY23 reappropriations and encumbrances resulted in expired (lapsed) appropriations of \$126.4 million versus the \$90 million estimate with a like increase in the unobligated beginning balance for FY22-23.

2024 Session Budget Adjustment Requests (General Funds)

Agencies were required to submit requests for midbiennium budget adjustments by October 24. A complete list of requested General Fund items is shown in Table 2. At this point in the process, detailed information on the request items is not available as they are currently under review and analysis by the Legislative Fiscal Office and Governor's Budget Office.

These requested items will be subject to review and approval or rejection by the Governor and Legislature during the 2024 Session. For purposes of this report, specific items are not included in the General Fund financial status. However, because the overall General Funds requested are negative, it is assumed that any increases will be potentially offset by reductions, and as such, the net change in General Funds is zero.

The updated TEEOSA estimate discussed later is not included in this listing and is treated as a separate item as the revised estimate occurred after the deadline for submittal of budget change requests. There will also likely be other requests that will subsequently be submitted for things such as Homestead Exemption and defined benefit retirement plans.

Table 2 - General Fund Midbiennium Requests

Ag #	Agency	Issue Name	Type	FY 2023-24 Request	FY 2024-25 Request
5	Supreme Court	Interpreter Rate Increase	Oper	600,000	600,000
5	Supreme Court	Judicial Security	Oper	145,000	145,000
5	Supreme Court	Problem-solving Court Expansion	Oper	0	244,233
5	Supreme Court	Problem-solving Court Expeditor	Oper	0	105,933
5	Supreme Court	Self-help Center Pilot Project	Oper	0	226,455
13	Education	2023-25 Salary Increase Issue Correction	Oper	415,704	580,863
13	Education	Add'l Appropriation/PSL for Vacation/Sick Payouts	Oper	7,205	0
13	Education	Add'l Appropriation for OCIO's Cost Analysis	Oper	35,123	40,956
13	Education	Add'l Appropriation for State Assessment Services	Oper	2,348,517	3,806,277
13	Education	Annualize 2023 Deficit for School of Deaf/Blind	Oper	166,724	166,724
13	Education	Reduce Appropriation for TEEOSA State Aid	Aid	(18,865)	0
14	Public Service Commission	Funding for the Railroad Track Inspection Program	Oper	50,149	127,613
14	Public Service Commission	Increased Commissioner Expenses	Oper	31,447	31,447
25	Health & Human Services	Base Reduction: Behavioral Health	Aid	(15,000,000)	(15,000,000)
25	Health & Human Services	Base Reduction: Public Assistance	Aid	(10,000,000)	(10,000,000)
25	Health & Human Services	Regional Centers Increased Staff Costs	Oper	15,000,000	5,000,000

31	Military Department	State Tuition Assistance Program Increase	Aid	200,000	200,000
33	Game & Parks	Mayhew Cabin Study	Oper	125,000	0
54	Historical Society	Capitol Store	Oper	245,156	120,000
54	Historical Society	Digital Archivist	Oper	22,641	90,563
54	Historical Society	Gerald R. Ford Conservation	Oper	233,033	242,284
54	Historical Society	GIS Specialist	Oper	13,818	50,255
54	Historical Society	Neligh Mill Elevator Demolition Project	Oper	195,000	0
54	Historical Society	Skeletal Remains	Oper	20,000	0
64	State Patrol	Evidence Facility Upgrades	Oper	75,000	0
64	State Patrol	Law Enforcement Professional Liability Insurance	Oper	110,725	110,725
64	State Patrol	Salary Compression Adjustments	Oper	0	935,261
72	Economic Development	Reduce Aid for Nuclear & Hydrogen Grants	Aid	(250,000)	(250,000)
STATE TOTALS				(5,228,623)	(12,425,411)

Updated Special Education Aid Estimate

Section 79-1142 requires the Dept. of Education to submit a letter to the Governor and the Appropriations and Education Committees of the Legislature regarding the total allowable excess costs for all special education programs and support services for all school districts, cooperatives of school districts, and educational service units; and the total reimbursements requested for the most recently completed fiscal year.

The letter estimated the total Special Education reimbursement costs for FY23-24 will be \$462,304,754, and to maintain the current funding split from LB 583 (2023), funding will be allocated \$250,569,177 from the General Fund and \$211,735,577 from the Education Future Fund. This is an increase of \$14,844,703 from the amount appropriated for FY23-24 from the General Fund, and an increase of \$12,694,525 from the Education Future Fund (6.4%). For purposes of this report, the additional \$14.8 million in FY23-24 is shown on the 2024 TEEOSA/SPED Aid revisions line on the General Fund financial status.

This additional reimbursement has not yet been factored into the TEEOSA estimate presented in this report, but will likely have an impact on TEEOSA aid in the following biennium.

Updated TEEOSA State Aid Estimate

Section 79-1031 requires the Dept. of Education with the assistance of the property tax administrator, Legislative Fiscal Analyst, and DAS-Budget Division to make an estimate of the funding needs for TEEOSA for the next year. Based on valuation and spending assumptions agreed to at that meeting, NDE estimates TEEOSA aid for FY2024-25 of \$1.07 billion, which is \$26 million less than the estimate at Sine Die 2023. A \$3 million increase in the estimate of Insurance Premium Tax results in a General Fund estimate for FY2022-23 of \$916 million, or \$28.9 million less than currently budgeted. Additionally, actual insurance premium tax for FY23-24 has increased from the estimated amount of \$37.5 million, resulting in savings of \$2.1 million for FY23-24. The savings are shown on the 2024 TEEOSA/SPED Aid revisions line on the General Fund financial status.

With respect to the FY25 estimate, most of the decline is attributed to a higher than estimated valuations for property tax year 2023. The estimated increase in valuation used in the 2023 session was 9.1%, but the actual increase in 2023 valuation was over 11.4%.

TEEOSA estimates will be further refined in mid-December when the FY21 Annual Financial Reports (AFR) from schools are compiled and available. At that point many key calculation components in the TEEOSA formula will be known numbers not just estimates. This includes school spending and the amount of other school receipts.

The estimates for FY26 and FY27 are based on the same methodology utilized for the November 15 estimates required under current law for the proposed biennial budget but with Fiscal Office assumptions and should be

considered Fiscal Office estimates. The estimates reflect a decline in overall school aid of 1.3% in FY26 and an increase in FY27 of 2.1% (all funds). The General Funds portion declines 1.7% in FY26 and increases 2.1% in FY27. The growth reflects a 3.5% per year estimate in school spending and slowing valuation growth of 6.2% in FY26 and 3.2% in FY27 (down from 11.4% in FY25).

For FY2025-26, TEEOSA aid is projected to be \$54 million lower than previous estimates, and the General Fund portion is \$58.5 million lower. Property valuation growth estimates for 2024 increased from a rough estimate of 3.2% to 6.2% based on preliminary input from county assessors to the Property Assessment division of the state Dept. of Revenue (DPAD). For FY26-27, total TEEOSA aid declines by \$55 million, and the General Fund portion declines by \$62 million.

TEEOSA – Sine Die 2023	All Funds Cert. FY2023-24	All Funds FY2024-25	All Funds FY2025-26	All Funds FY2026-27
State General Funds	1,030,209,169	944,862,755	958,412,418	980,895,255
Education Future Fund	112,353,248	113,145,292	113,998,046	114,915,590
Insurance Premium Tax (w/o Deficit)	37,500,000	38,000,000	38,000,000	38,000,000
Total TEEOSA Aid	1,180,062,417	1,096,008,047	1,110,410,464	1,133,810,845
80% SPED Reimbursement - EFF	199,041,052	206,007,489	213,217,751	220,680,372

TEEOSA – November 2023 Joint Meeting	All Funds Cert. FY2023-24	All Funds FY2024-25	All Funds FY2025-26	All Funds FY2026-27
State General Funds	1,028,075,516	916,000,000	899,895,614	918,978,211
Education Future Fund	112,353,247	113,000,000	113,998,045	114,915,590
Insurance Premium Tax (w/o Deficit)	39,616,070	41,000,000	42,500,000	45,000,000
Total TEEOSA Aid	1,180,044,833	1,070,000,000	1,056,393,659	1,078,893,801
80% SPED Reimbursement - EFF	199,041,052	206,007,489	213,217,751	220,680,372
Difference in General Funds from Sine Die 2023	(2,133,653)	(28,862,755)	(58,516,804)	(61,917,044)

*This table does not reflect the changes in the special education reimbursement discussed in the previous section.

General Fund Revenues

Revenue Forecasts

The FY2021-22 actual receipts were \$1.469 billion above the certified forecast. Of this \$1.469 billion above certified forecast amount, \$1.288 billion is transferred to the Cash Reserve Fund while the other \$181.4 million is retained in the General Fund. Section 77-4602 as amended provides that the amount to be transferred to the Cash Reserve Fund is the amount actual receipts exceed the certified forecast less receipts above a 3.5% growth over the prior year revenues. Originally under LB1107 this amount would have been added to the income tax credit, but LB873 (2022) fixed those credit amounts for 2022 and 2023, so the difference was retained in the General Fund. FY2021-22 rate and base adjusted revenue growth was 18.7%.

At the October 2022 meeting, the NEFAB revised the forecast for FY22-23 and set an initial forecast for FY23-24. At the April 2023 meeting, the NEFAB lowered the forecast for FY2022-23 from \$6.445 billion to \$6.365 billion, and the forecast for FY2022-23 was recertified. The NEFAB also revised the FY2034-24 and FY2024-25 forecasts. Actual receipts for FY2022-23 were \$6.368 billion, which exceeded the certified forecast by \$3 million. The excess above the certified forecast is transferred to the Cash Reserve Fund in FY2023-24. FY2022-23 rate and base adjusted revenue growth was 2.0%.

At the October 2023 meeting, the NEFAB raised the FY2023-24 forecast from \$6.437 billion to \$6.445 billion and lowered the FY2024-25 forecast from \$6.378 billion to \$6.365 billion. The \$8 million above the July 2023 certified forecast for FY23-24 is estimated to be transferred to the Cash Reserve Fund at this time (See Cash Reserve Fund section for additional detail).

Following Biennium (FY26 and FY27)

The NEFAB does not make official forecasts for the following biennium or what's commonly referred to as the "out years." "Out year" estimates have traditionally been derived by the Legislative Fiscal Office (LFO) using a "capped" historical average methodology. This "smoothing" technique derives "out year" revenue estimates by calculating the level of revenues that would yield a five year average growth (FY23 to FY27) roughly equal to the 40+ year historical average (5.3%) less 0.25%, which is the projected impact of indexing the tax brackets as enacted in 2014 (LB987). Inherent in this methodology is the concept that within any five-year period, below average revenue growth in some years will be offset by above average growth in others and is visually seen in the line graph of historical adjusted revenue growth (Table 5 on page 7). The "capped" provision of this methodology means that the derived growth needed in the out years to achieve the historical average cannot be higher than the "above average" growth years nor lower than the "below average" growth years. Using the methodology has generally allowed for the Legislature to budget to the average over the five year period.

Over the past 42 years, there were 17 years in which revenue growth was "below average" (1.7% average) and 25 years in which revenue growth was above average (8.1% average). Because the revenue growth in the NEFAB forecasts is below average, using this methodology the revenue growth needed to yield a 5.0% five year average is 6.7% in both FY2025-26 and FY2026-27.

Alternative methods are also available for purposes of deriving revenue estimates for the following biennium. In addition to LFO's historical average methodology, both the Nebraska Dept. of Revenue (NDR) and Legislative Fiscal Office (LFO) have calculated revenue estimates for these two "out years" using the same models and input from S&P GLOBAL and Moody's Analytics, the national forecasting services used as input into the tax forecast models.

In prior years, LFO has been reluctant to use "out year" forecast estimates for projecting revenue for the "out

years” because there is some tendency of the forecasts to flatten out and follow current trends into those years without picking up changes in the trend line. However, LFO has determined it is prudent to deviate from its historical methodology in projecting revenue for the FY2025-26 and FY2026-27 biennium for several reasons.

In the past two fiscal years, extraordinary circumstances, including federal stimulus programs, have led to two consecutive record revenue growth years. The five year average for actual receipts for the period FY2018-19 to FY2022-23 was 9.4%, which is nearly double the historical average. The revenue growth in FY2020-21 was 13.5% and FY2021-22 was 18.7%, both record highs at the time they were recorded, and so much higher than previous years’ growth rates that these two years alone drove up the historical average, in use since 1981, by 0.6%. Table 3 shows the five year average rate and base adjusted growth for actual receipts for previous five year General Fund financial status periods.

Table 3 – Five Year Average Rate and Base Adjusted Revenue Growth by General Fund Financial Status

<u>Biennial Budget Status (5 Yr on Financial Status)</u>	<u>5 Yr Ave Rate and Base Adjusted Growth Rate</u>
FY84/FY85 Biennium (FY83 to FY87 Status)	3.91%
FY86/FY87 Biennium (FY85 to FY89 Status)	5.70%
FY88/FY89 Biennium (FY87 to FY91 Status)	6.21%
FY90/FY91 Biennium (FY89 to FY93 Status)	6.02%
FY92/FY93 Biennium (FY91 to FY95 Status)	5.20%
FY94/FY95 Biennium (FY93 to FY97 Status)	6.80%
FY96/FY97 Biennium (FY95 to FY99 Status)	8.37%
FY98/FY99 Biennium (FY97 to FY01 Status)	6.67%
FY00/FY01 Biennium (FY99 to FY03 Status)	2.66%
FY02/FY03 Biennium (FY01 to FY05 Status)	3.42%
FY04/FY05 Biennium (FY03 to FY07 Status)	6.59%
FY06/FY07 Biennium (FY05 to FY09 Status)	5.70%
FY08/FY09 Biennium (FY07 to FY11 Status)	2.84%
FY10/FY11 Biennium (FY09 to FY13 Status)	2.50%
FY12/FY13 Biennium (FY11 to FY15 Status)	6.58%
FY14/FY15 Biennium (FY13 to FY17 Status)	3.68%
FY16/FY17 Biennium (FY15 to FY19 Status)	4.01%
FY18/FY19 Biennium (FY17 to FY21 Status)	6.48%
FY20/FY21 Biennium (FY19 to FY23 Status)	9.57%
FY22/FY23 Biennium (FY21 to FY25 Status)	8.76%
FY24/FY25 Biennium (FY23 to FY27 Status)	3.84%

This extraordinary revenue growth in FY20-21 and FY21-22 occurred not just in Nebraska, but in most other states. It is uncertain as to whether these increases are due solely to economic conditions or to a broadening of the base in some regard. Additionally, it is uncertain whether there is a correction to be anticipated in terms of a negative growth rate for a period of time. In the past, there has normally been a downward trend in revenue growth that corresponds with the upwards trend. The historical average methodology at this point in time does not account for a corresponding downward trend that adequately accounts for the extraordinary revenue growth the state has seen the previous two years, in light of the fact that the highest revenue growth years are not accounted for in the five-year average calculation in the current status, which only includes FY2022-23 through FY2026-27.

Additionally, in reviewing the 2022 volatility report, attached to the annual 2022 Tax Rate Review Committee Report, the state has followed a rather predictable trend in forecast errors. Since FY1984-85, there has been a regular pattern of actual receipts exceeding the forecast one year prior for a period of four to five years, followed by a period of two to four years of actual receipts coming in lower than the forecast one year prior. These forecast errors on the negative side have corresponded with recessions, and in most instances, budget shortfalls. Following the end of FY22-23, the state has had five consecutive years of actual receipts exceeding the forecast one year prior, and it seems highly unlikely, following the pattern, that this will continue indefinitely.

For these reasons and following the same methodology in the 2022 Tax Rate Review Committee Report, LFO has determined the best methodology in these circumstances is to use the LFO and NDR forecast estimates for FY26 and FY27 to project the revenue in those years.

The NEFAB forecasts and projected “out year” revenue estimates are shown in Table 4. LFO Prelim estimates for FY2025-26 and FY2026-27 are the average of all forecasts (LFO S&P GLOBAL, LFO Moody’s, NDR S&P GLOBAL, and NDR Moody’s). Rate and base adjusted growth in FY2025-26 is 4.2% and in FY2026-27 is 3.6% for a two year average of 3.9%. Five year average growth for the status period is 3.9%.

Table 4 - General Fund Revenue Forecasts

	Actual FY2022-23	NEFAB FY2023-24	NEFAB FY2024-25	LFO Prelim FY2025-26	LFO Prelim FY2026-27
<u>Actual/Forecast</u>					
Sales and Use Tax	2,335,899,936	2,500,000,000	2,560,000,000	2,658,679,000	2,763,256,000
Individual Income Tax	3,005,952,059	3,000,000,000	2,945,000,000	2,959,377,000	2,794,599,000
Corporate Income Tax	692,964,729	650,000,000	580,000,000	515,698,000	497,574,000
Miscellaneous receipts	333,165,768	295,000,000	280,000,000	226,136,000	211,703,000
Total General Fund Revenues	6,367,982,492	6,445,000,000	6,365,000,000	6,359,890,000	6,267,132,000
<u>Adjusted Growth</u>					
Sales and Use Tax	4.1%	7.0%	2.6%	3.7%	4.3%
Individual Income Tax	-1.7%	7.7%	5.7%	6.4%	3.1%
Corporate Income Tax	2.5%	3.8%	-2.5%	-0.1%	4.8%
Miscellaneous receipts	37.9%	-12.5%	-2.6%	-11.7%	-0.8%
Total General Fund Revenues	1.9%	6.1%	3.4%	4.2%	3.6%
Two Yr Average	10.4%	--	4.8%	--	3.9%
Five Yr Average	9.6%	--	8.8%	--	3.8%

For comparison, the LFO Historical Methodology, the average of the LFO and NDR forecasts, and the “out-year” revenue estimates (adjusted for 2023 legislation) of the Joint Appropriations and Revenue Committee meeting on April 20, 2023, for FY26 and FY27 are shown in Table 5. The Joint Appropriations and Revenue Committee estimates, adjusted for 2023 legislation, is relatively similar to the average of all forecasts. The Joint Committee estimates result in a balance above the minimum reserve on the General Fund financial status of \$17.8 million higher. The main difference between these estimates and the average of the forecasts is by fiscal year, and not the overall total. The LFO historical methodology results in a balance above the minimum reserve on the General Fund financial status of \$648.5 million higher, as the five year average adjusted growth rate goes from around 3.8%-4.0% in the other two scenarios to 5.0% in the LFO historical methodology.

Table 5 – Comparison of FY26 and FY27 Estimates (in thousands)

	Joint Committee + 2023 Bills	Average (All Forecasts)	LFO Historical Methodology
FY25-26 Prelim	6,322,044	6,359,889	6,565,000
FY26-27 Prelim	6,323,294	6,267,131	6,730,000
Growth Rate (Rate and Base Adj)			
FY25-26 Prelim	3.7%	4.2%	6.8%
FY26-27 Prelim	4.7%	3.6%	6.6%
Two Year Ave	4.2%	3.9%	6.7%
Five Year Ave	4.0%	3.8%	5.0%
\$ Difference from Status			
FY25-26 Prelim	(37,846)	0	205,110
FY26-27 Prelim	56,162	0	462,868
Change in minimum reserve (biennium)	(533)	0	(19,455)
Total	17,783	0	648,522

The annual growth rate (rate and base adjusted) since 1981, including the projected revenue shown in the current status, is shown in Table 6, and the actual and projected General Fund revenues since FY2000-01 are shown in Table 7.

Table 6 – General Fund Revenue Growth (Rate and Base Adjusted) Since 1981

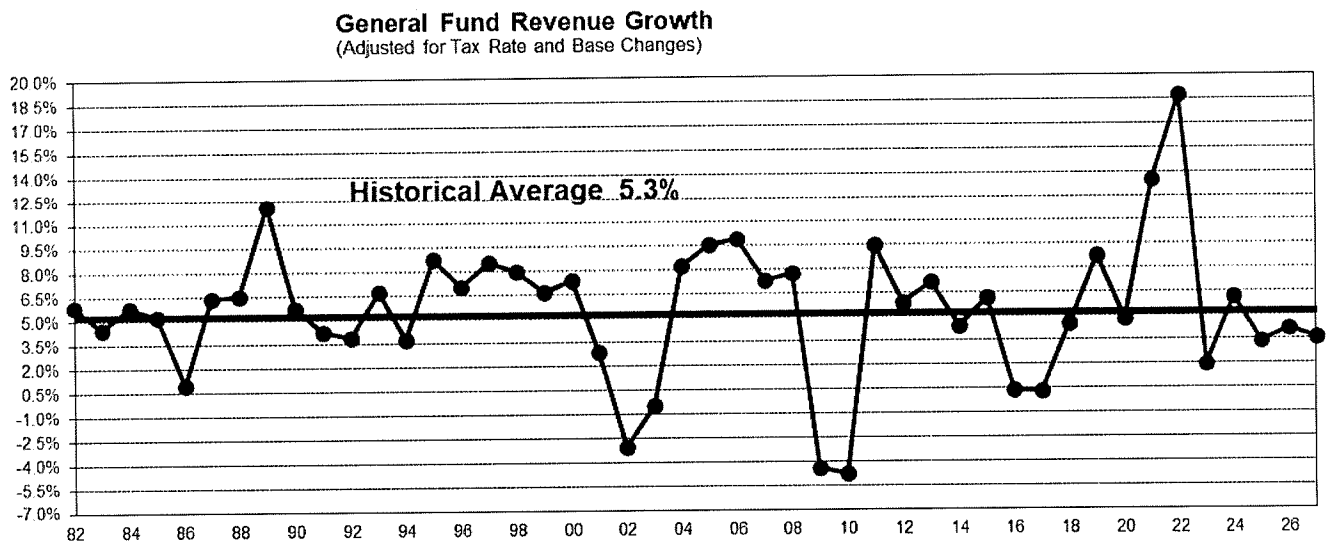


Table 6 - Actual and Projected General Fund Revenues

	Sales/ Use	Individual Income	Corporate Income	Misc. Receipts	Total GF Receipts	Adj % Chnge	Unadj. % Chnge
<u>ADJUSTED GROWTH</u>							
FY2000-01 Actual	905.0	1,233.4	138.1	180.4	2,456.9	2.9%	2.2%
FY2001-02 Actual	918.9	1,159.8	107.6	179.2	2,365.5	-3.0%	-3.7%
FY2002-03 Actual	1,028.9	1,129.4	111.6	186.4	2,456.4	-0.5%	3.8%
FY2003-04 Actual	1,114.4	1,249.9	167.4	187.0	2,718.7	8.3%	10.7%
FY2004-05 Actual	1,231.0	1,400.1	198.4	207.7	3,037.2	9.5%	11.7%
FY2005-06 Actual	1,263.7	1,545.3	262.3	280.9	3,352.2	9.9%	10.4%
FY2006-07 Actual	1,303.8	1,650.9	213.0	240.6	3,408.3	7.3%	1.7%
FY2007-08 Actual	1,321.9	1,726.1	232.9	225.3	3,506.2	7.7%	2.9%
FY2008-09 Actual	1,326.2	1,600.4	198.5	232.4	3,357.5	-4.4%	-4.2%
FY2009-10 Actual	1,289.8	1,514.8	154.3	245.7	3,204.7	-4.8%	-4.6%
FY2010-11 Actual	1,372.8	1,735.2	154.9	236.7	3,499.7	9.4%	9.2%
FY2011-12 Actual	1,436.9	1,822.9	234.3	201.8	3,695.9	5.9%	5.6%
FY2012-13 Actual	1,474.9	2,101.9	275.6	199.9	4,052.4	7.2%	9.6%
FY2013-14 Actual	1,524.8	2,060.8	306.6	225.3	4,117.5	4.4%	1.6%
FY2014-15 Actual	1,535.4	2,205.5	346.5	217.7	4,305.1	6.2%	4.6%
FY2015-16 Actual	1,528.0	2,221.1	307.6	251.2	4,308.0	0.3%	0.1%
FY2016-17 Actual	1,548.4	2,224.8	264.5	228.1	4,265.8	0.3%	-1.0%
FY2017-18 Actual	1,602.7	2,360.6	313.7	290.0	4,566.9	4.5%	7.1%
FY2018-19 Actual	1,658.1	2,545.7	423.7	268.8	4,896.4	8.7%	7.2%
FY2019-20 Actual	1,848.2	2,445.7	391.2	254.7	4,939.8	4.8%	0.9%
FY2020-21 Actual	2,009.7	3,130.6	571.2	247.5	5,959.0	13.5%	20.6%
FY2021-22 Actual	2,133.2	3,243.2	715.1	257.4	6,348.9	18.7%	6.5%
FY2022-23 Actual	2,335.9	3,006.0	693.0	333.2	6,368.0	2.0%	0.3%
FY2023-24 NEFAB	2,500.0	3,000.0	650.0	295.0	6,445.0	6.1%	1.2%
FY2024-25 NEFAB	2,560.0	2,945.0	580.0	280.0	6,365.0	3.4%	-1.2%
FY2025-26 LFO Prelim	2,658.7	2,959.4	515.7	226.1	6,359.9	4.2%	-0.1%
FY2026-27 LFO Prelim	2,763.3	2,794.6	497.6	211.7	6,267.1	3.6%	-1.5%
<u>AVERAGE GROWTH:</u>							
Historical Average (42 yrs)	4.4%	6.1%	6.2%	2.0%	5.3%	5.3%	
Above Average Years (25)	6.0%	9.9%	14.4%	3.9%	8.1%	8.1%	
Below Average Years (17)	2.2%	2.3%	-2.8%	2.9%	1.7%	1.7%	
Historical Average (42 yrs)	4.4%	6.1%	6.2%	2.0%	5.3%	5.3%	

General Fund Transfers-Out

This area tabulates funds that are transferred from the General Fund to another fund within the state treasury. These items have the same effect as an appropriation in that they reduce available funds, but are not expended as such and thus are shown under the revenue category (see line 9 on the Financial Status).

Table 7 - General Fund Transfers Out

	Biennial Budget			Following Biennium	
	FY2022-23	FY2023-24	FY2024-25	FY2025-26	FY2026-27
Property Tax Credit Fund	(310,000,000)	(360,000,000)	(395,000,000)	(427,000,000)	(442,000,000)
Water Resources Cash Fund	(3,300,000)	0	0	0	0
Cultural Preservation Endowment Fund (with LB142)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Water Sustainability Fund	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)	(11,000,000)
Nebraska Revolving Loan Fund (per LB1107-2020)	(5,000,000)	0	0	0	0
Hall of Fame Trust Fund (LB 42-2021)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Public Advocacy Cash Fund	(520,000)	(1,000,000)	(1,000,000)	0	0
Municipal Inland Port Authority Act (LB156-2021)	(5,000,000)	(5,000,000)	0	0	0
Shovel-Ready Capital Recovery/Invest Act (LB566-2021)	(15,000,000)	0	0	0	0
Water Recreation Enhancement Fund (STARWARS) (LB 1011-2022)	(100,000,000)	0	0	0	0
NCCF - Fund shifts and new projects (LB 1011-2022)	(40,723,459)	0	0	0	0
Jobs & Econ Development Initiative (STARWARS) (LB 1011-2022)	(20,000,000)	0	0	0	0
Governors Emergency Fund (LB 1011-2022)	(5,000,000)	0	0	0	0
Nebr Environmental Response Act (LB 1102-2022)	(300,000)	0	0	0	0
Community College State Dependents Fund	(1,000,000)	(1,000,000)	(1,500,000)	0	0
Economic Recovery Act	0	(10,000,000)	(40,000,000)	0	0
Education Future Fund	0	(1,000,000,000)	(250,000,000)	(250,000,000)	(250,000,000)
DEE LEAD Cash Fund	0	(10,000,000)	0	0	0
Nuclear & Hydrogen Deve. Fund (LB 565-2023)	(200,000)	0	0	0	0
Workers' Compensation Court Cash	0	(750,000)	0	0	0
Community College Future Fund (LB 243-2023)	0	0	(246,499,886)	(255,127,382)	(264,056,840)
General Fund Transfers-Out	(518,053,459)	(1,399,760,000)	(946,009,886)	(944,137,382)	(968,066,840)

Property Tax Credit Cash Fund

Under this program transfers are made to the Property Tax Credit Cash Fund at the discretion of the Legislature. Based on the amount of funds available, monies are then allocated to counties by the ratio of the real property valuation in the county to the real property valuation in the state. Counties then allocate funds as credit to each tax payer again based on their proportionate value. Enacted in 2007, the amount available for credits was \$105 million in FY07-08, and \$115 million in FY08-09 through FY13-14. During the 2014 session, the FY14-15 amount was increased to \$140 million. In the 2015 session, the credit was increased by \$64 million increase to a total of \$204 million.

In the 2016 session, LB 958 made several changes dealing with the Property Tax Credit Act. Previously the property tax credit was distributed based on 100% of the taxable value of real property. Under LB 958, the credit is distributed using "credit allocation valuation" which is 120% of agricultural and horticultural land taxable value and 100% for all other real property except agricultural and horticultural land. LB958 provided language that the credit amount should be increased by \$20 million to a total of \$224 million as a hold harmless for residential and commercial & industrial property.

In the 2019 session, the credit amount was increased in the mainline budget bill to \$275 million per year starting in FY2019-20. In the 2021 session, the amount was increased to \$300 million for FY21-22, and \$313 million for FY22-23. In the 2023 session, the amount was increased to \$363 million for FY23-24 and \$398 million for FY24-25 related to General Fund transfers. LB 243 (2023) also increases the minimum amount of relief under the act for upcoming years, to \$430 million in FY25-26 and to \$445 million in 26-27.

The General Fund transfer amounts shown here are all \$3 million less than the credit amount. This is because the credit amount is funded through these General Fund transfers plus any interest that will be earned on the fund balance from the time of transfer to the time of reimbursement payments to the counties and credits

calculated but unpaid relating to properties receiving homestead exemptions.

In addition, there is also an appropriation of \$12.5 million in FY23-24 and \$15 million in FY24-25 to correspond with the casino gaming tax that is directly credited to the Property Tax Credit Cash Fund. Pursuant to section 9-1204, seventy percent of casino gaming tax collected is credited to the Property Tax Credit Cash Fund. Through June 30, 2023, about \$5.7 million has been credited to the fund so far as the first three temporary casinos have been licensed in the state this fiscal year. The General Fund transfer amount does not take into account the additional credit appropriation due to casino gaming tax.

Nebraska Cultural Preservation Endowment Fund

The Cultural Preservation Endowment Fund was originally created in 1998 with a transfer of \$5 million from the General Fund. LB 1165 (2008) provided for an additional \$5 million for the endowment fund through a \$1 million transfer from the Cash Reserve Fund and another \$4 million from the General Fund provided over a series of years. After multiple alterations of the fiscal year transfers, the final transfers, which averaged \$500,000 were scheduled to expire at the end of FY2016-17. In FY21-22, the amount of the transfer increased from \$500,000 to \$1 million per year.

Water Sustainability Fund

This fund was created through LB906 passed in the 2014 session. Monies for the fund came from General Fund transfers; \$21,000,000 in FY2014-15. Of this transfer, \$10,000,000 is considered one-time as it was financed by a like transfer from the Cash Reserve Fund to the General Fund. Intent language was included that \$11,000,000 General Funds be transferred to the Water Sustainability Fund in each fiscal year beginning in FY2015-16.

Hall of Fame Trust Fund

The enacted budget includes the transfer of \$10,000 from the General Fund to the Hall of Fame Trust Fund, but amends the statutory language to clarify that if the balance in the Hall of Fame Trust Fund exceeds \$50,000 at on the last day of the preceding fiscal year, the transfer shall not take place. The Hall of Fame Trust Fund is administratively supported by the Nebraska State Historical Society and is utilized for the creation, design, size, configuration, and placement of busts or other appropriate objects in the State Capitol or other location approved by the Hall of Fame Commission.

Education Future Fund

The enacted budget includes the provisions of LB 681, which creates the Education Future Fund and transfers \$1 billion to the Nebraska Department of Education (NDE) from the General Fund in FY2023-24 into the newly created fund and \$250 million each year thereafter. LB 705 (2023) also amended provisions related to the EFF to include two additional uses of the fund.

The Education Future Fund will prioritize the following:

- To fully fund equalization aid under the Tax Equity & Educational Opportunities Support Act (TEEOSA);
- To fund reimbursements related to special education under section 79-1142;
- To fund foundation aid under TEEOSA;
- To increase funding for school districts in a way that results in direct property tax relief, which means a dollar-for-dollar replacement of property taxes by a state funding source;
- To provide funding for a grant program created by the Legislature to address teacher turnover rates & keep existing teachers in classrooms;
- To provide funding to increase career & technical educational (CTE) classroom opportunities for students. The funding must provide students with the academic & technical skills, knowledge, and training necessary to succeed in future careers;

- To provide funding to provide students the opportunity to have a mentor who will continuously engage with the student directly to aid in the student's professional growth and give ongoing support and encouragement to the student;
- To provide funding for extraordinary increases in special education expenditures to allow school districts with large, unexpected special education expenditures to more easily meet the needs of all students; and
- To provide funding to help recruit teachers throughout the state by utilizing apprenticeships through a teacher apprenticeship program and an alternative certification process.

The enacted budget includes an appropriation for CTE funding of \$5.316 million per year from the EFF. Additionally, LB 705 (2023) and LB 583 (2023) appropriated funds from the EFF for the purposes shown in the table below. These appropriations total \$325.2 million in FY23-24 and \$333 million in FY25. Estimated appropriations are shown for FY25-26 and FY26-27 as well as the remaining balance in the fund as the initial transfer in from the General Fund is drawn down.

		EDUCATION FUTURE FUND DISTRIBUTIONS			
Bill #		FY23-24	FY24-25	FY25-26	FY26-27
LB 818	Transfers In:	1,000,000,000	250,000,000	250,000,000	250,000,000
	Appropriations:				
LB 705	Extraordinary Increases in Special Education	2,500,000	2,500,000	2,500,000	2,500,000
LB 705	Nebraska Teacher Apprenticeship Program	1,000,000	1,000,000	1,000,000	1,000,000
LB 705	Nebraska Teacher Recruitment & Retention Act	5,000,000	5,000,000	5,000,000	5,000,000
LB 583	Special Education - 80%	199,041,052	206,007,489	213,217,751	220,680,372
LB 583	24% of Foundation Aid	112,353,248	113,145,292	113,998,046	114,915,590
LB 814	Increase Career & Technical Education	5,316,000	5,316,000	5,316,000	5,316,000
	Total Appropriations:	325,210,300	332,968,781	341,031,797	349,411,962
	Remaining in Fund:	674,789,700	591,820,919	500,789,122	401,377,160

Lead Cash Fund

The enacted budget includes a transfer of \$10 million from the General Fund to the Lead Cash Fund and commensurate appropriation of cash funds for year FY23-24. Funds are to be used for lead service line replacement, pursuant to the provisions of LB 613.

Public Advocacy Cash Fund

The Public Advocacy Commission was created in 1995 to provide indigent defense services. Such services include providing effective representation to indigent defendants in first degree murder cases, other serious violent felony cases, and certain felony drug cases. The Commission on Public Advocacy has historically been a cash funded agency that generates revenue from the indigent defense fee of three dollars. The revenue from the court cases filed have decreased over several years, to the point that funding its operations expenses was increasingly difficult. The fee has not increased for many years. The previous biennium budget transferred funds from the General Fund to the Public Advocacy Cash Fund in the previous biennium, in the amount of \$520,000 per fiscal year. The enacted budget includes a transfer from the General Fund in the budget proposal for FY23-24 and FY 24-25 as well, in the amount of \$1 million per year.

Workers Compensation Court Cash Fund

The enacted budget includes a one-time transfer of \$750,000 from the General Fund to the Court's cash fund in FY23-24. This will serve to cover a budget deficit projected to occur early in calendar year 2024. Currently, the WCC cash fund receives an amount equaling one third of assessments against self-insured agencies each Spring, which are used to pay all WCC expenses for the coming year (the remaining two-thirds goes to the General fund). The allocation of these assessments is changed in LB 191 (2023) to credit 100% to the WCC cash fund. However, the timing of when such assessments are credited to the fund necessitates additional funding earlier in the fiscal year for cash flow of expenses. The enacted budget includes a requirement for the agency to file a report by December 31, 2023. The report will include data for the most recently completed four fiscal years, and a projection for the upcoming two fiscal years, for topics such as staffing patterns, claims addressed, operational expenditures, and plans for any reduction in workforce commensurate with diminishing of claims volume over time.

Economic Recovery Act

LB 1024 (2022) included intent to transfer \$10 million from the General Fund in FY23-24 and FY24-25. The enacted budget includes these transfers and includes an additional \$30 million in FY24-25 from the General Fund into the Economic Recovery Contingency Fund to increase funding from a maximum of \$60 million to a maximum of \$90 million for the airport project pursuant to the act.

Community College State Dependents Fund

Created in the mid-biennium adjustments in 2022 (LB 1012), this fund is used for community college tuition reimbursements for dependents of state employees. Funding was initially \$500,000 in FY21-22 and \$1 million in FY22-23. In the biennial budget recommendation, the enacted budget includes a transfer from the General Fund of \$1 million in FY23-24 and \$1.5 million in FY24-25 to expand the program.

Municipal Inland Port Authority Act

Enacted in 2021 (LB 156), the Municipal Inland Port Authority Act included intent to transfer \$5 million per year from the General Fund to the Site and Building Development Fund in FY22-23 and FY23-24. The funds are for use to fund large shovel-ready commercial and industrial sites developed under the Municipal Inland Port Authority Act.

Community College Future Fund

LB 243 limits the ability of community college areas to levy property taxes for FY 2024-25 and after. The state would distribute funds to community college areas to offset the funds lost by community college areas with the elimination of their levy authority under subdivisions (2) (a) and (c) of section 85-1517 with community colleges retaining the levy authority under (b). The funds would be distributed to community college areas by the government of the State of Nebraska in the following manner:

- FY 2024-25: The amount of property taxes levied by the community college area for FY 2023-24 pursuant to subdivisions (2) (a) and (c) of section 85-1517 or the amount of property taxes that would have been generated from a levy of \$0.075 per \$100 of taxable valuation, whichever is greater, with the amount then increased by 3.5% or the percentage increase in the reimbursable educational units of the community college area, whichever is greater.
- FY 2025-26 and after: The amount distributed to the community college area in the prior fiscal year, increased by 3.5% or the percentage increase in the reimbursable educational units of the community college area, whichever is greater.

The amounts would be calculated by the Coordinating Commission for Postsecondary Education (Commission). The Commission would also annually certify the total amount to be distributed, as described above, to all

community college areas, to the State Treasurer. The State Treasurer would then transfer the certified amount from the General Fund to the newly created Community College Future Fund in 10 equal payments distributed monthly beginning in September and continuing through June. The Commission would then make distributions to the community college areas in ten equal payments distributed monthly beginning in September and continuing through June.

Beginning in FY 2024-25, if the state would fail to provide the full funding calculated for it to distribute in this aspect of the amendment, a community college area could, if approved by a majority vote of the community college board of governors, levy an amount for the fiscal year under subdivision (2) (a) of section 85-1517 sufficient to generate revenue equal to the amount that would have been provided to the community college area as calculated by the Commission to be fully funded minus the amount that was actually provided to the community college area.

General Fund Transfers In

Cash funds are funds which contain earmarked revenue sources and monies in those funds can only be used for the purposes authorized by statute. In many instances (since the 2009 special session) an authorized use of monies in a cash fund is transfers to the General Fund at the discretion of the Legislature. For accounting purposes, these are shown as "Transfers in" and are included as General Fund revenues.

Table 8 - General Fund Transfers-In

	Current Yr FY2022-23	Biennial Budget		Following Biennium	
		FY2023-24	FY2024-25	FY2025-26	FY2026-27
Securities Act Cash Fund	24,000,000	24,000,000	24,000,000	0	0
Dept of Insurance Cash Fund	8,000,000	8,000,000	8,000,000	0	0
Tobacco Products Admin Cash Fund	7,000,000	7,000,000	7,000,000	0	0
State Settlement Cash Fund	295,957	295,957	295,957	0	0
<i>Total General Fund Transfers-In</i>	39,295,957	39,295,957	39,295,957	0	0

Such transfers are shown in Table 8. Historically there have been transfers from three main sources; Securities Act Cash Fund, Tobacco Products Admin Cash Fund, and the Dept. of Insurance Cash Fund. The enacted budget includes transfers-in of \$39.3 million each year.

Cash Reserve Fund

The Cash Reserve Fund (CRF) is not included as part of the "General Fund Reserve" (which is the ending General Fund balance for a biennium) and was created as a separate and distinct fund to cover cash flow needs within short period. The CRF also serves as a "rainy day fund" in that revenues in excess of a "certified forecast" are transferred from the General Fund to CRF at the end of a fiscal year, subject to certain statutory requirements. As the certified forecast is basically the revenue estimate at Sine Die when the budget is finalized, these transfers sequester revenues in excess of that which is needed to balance the budget.

Table 9 – Status of the Cash Reserve Fund

CASH RESERVE FUND	FY2022-23	FY2023-24	FY2024-25	Estimated	Estimated
				FY2025-26	FY2026-27
Beginning Balance	927,522,595	1,547,851,590	858,275,257	839,690,457	789,690,457
Excess of certified forecasts (line 3 in Status)	1,287,998,995	2,982,492	7,874,000	0	0
To/from Gen Fund current law	50,000,000	0	0	0	0
To/from Gen Fund (LB531-2023 & LB818-2023)	(10,000,000)	440,000,000	(1,000,000)	0	0
To Nebr Capital Construction Fund (NCCF)	(216,120,000)	(182,623,825)	(25,458,800)	0	0
To University Next project (LB1107-2020)	0	0	0	(50,000,000)	(50,000,000)
To Perkins County Canal Fund	(53,500,000)	(574,500,000)	0	0	0
To Jobs & Econ Develop Initiative	(80,000,000)	0	0	0	0
To Nebr Rural Projects Act	(50,000,000)	0	0	0	0
To Trail Develop/Improve Fund	(8,300,000)	0	0	0	0
To Rural Workforce Housing fund	(30,000,000)	0	0	0	0
To Surface Water Irrigation Fund	(50,000,000)	0	0	0	0
To Intern Nebraska Cash Fund	(20,000,000)	0	0	0	0
To Site & Building Fund	(20,000,000)	(2,000,000)	0	0	0
To Military Base Development fund	(30,000,000)	0	0	0	0
To Middle Income Housing fund	(20,000,000)	0	0	0	0
To Roads Operations Cash Fund	(100,000,000)	0	0	0	0
To State Indemnification Revolving Fund	(18,750,000)	0	0	0	0
From Gov Emergency Fund	0	2,000,000	0	0	0
To Econ Recovery Contingency	0	(240,000,000)	0	0	0
To Shovel Ready Capital Recovery Fund	0	(70,000,000)	0	0	0
To Critical Infrastructure Facilities Fund	0	(10,000,000)	0	0	0
To Economic Development Cash Fund	0	(20,000,000)	0	0	0
To Public Safety Fund	0	(1,115,000)	0	0	0
To Accounting Division Revolving Fund	0	(1,100,000)	0	0	0
To Health and Human Services Cash	0	(11,320,000)	0	0	0
To Risk Loss Trust (State Colleges)	0	(3,000,000)	0	0	0
To Youth Outdoor Education Fund	0	(10,000,000)	0	0	0
To Public Safety Comm Systems Revolving Fund	0	(5,000,000)	0	0	0
To Materiel Division Revolving Fund	0	(2,500,000)	0	0	0
To State Building Revolving Fund	0	(1,400,000)	0	0	0
To Revitalize Rural Nebraska Fund (LB531-2023)	(1,000,000)	0	0	0	0
To School Safety and Security Fund (LB705-2023)	(10,000,000)	0	0	0	0
Projected Unobligated Ending Balance	1,547,851,590	858,275,257	839,690,457	789,690,457	739,690,457

Excess of Certified Forecasts

Shown on line 3 of the Financial Status, revenues in excess of "certified" forecasts are required by statute to be transferred from the General Fund to the Cash Reserve Fund (CRF). These would take place in July of the fiscal year following completion of that year.

Actual receipts for FY21-22 (\$6.348 billion) were \$1.469 billion above the certified forecast of \$4.88 billion. The Legislature amended the calculation of the LB 1107 income tax credit to a fixed amount in LB 873 in 2022, but did not amend the provision relating to the transfer to the Cash Reserve Fund. As a result, the amount net receipts exceed 103.5% of the previous year's net receipts, rather than increasing the amount of the income tax credit for property taxes paid to schools is retained in the General Fund. In FY22-23, the CRF transfer based on actual FY21-22 receipts was \$1.287 billion, or the \$1.469 billion above certified revenues less the \$181 million retained in the General Fund.

The actual FY22-23 receipts exceeded the certified forecast of \$6.365 billion by \$3 million, which is transferred to the Cash Reserve Fund. The provision retaining any amount in the General Fund is not triggered for FY22-23 because net receipts for FY22-23 did not exceed net receipts for FY21-22 by 103.5%.

The Nebraska Economic Forecasting Advisory Board (NEFAB) revised the forecast for FY23-24 in October 2023 and increased the estimated General Fund net receipts by \$8 million. Pursuant to section 77-4602, beginning in FY23-24, the method for automatic transfers to the Cash Reserve Fund is changed as follows:

1. At the completion of the fiscal year, the Tax Commissioner will calculate (1) actual General Fund net receipts for the most recently completed fiscal year minus estimated General Fund net receipts for such fiscal year; and (2) Fifty percent of the product of actual General Fund net receipts for the most recently completed fiscal year times the difference between the annual percentage increase in the actual General Fund net receipts for the most recently completed fiscal year and the average annual percentage increase in the actual General Fund net receipts over the twenty previous fiscal years, excluding the year in which the annual percentage change in actual General Fund net receipts is the lowest.
2. If actual GF net receipts minus estimated GF net receipts is a positive number, the Tax Commissioner shall immediately certify the greater of the two numbers. The State Treasurer shall transfer the certified amount from the General Fund to the Cash Reserve Fund upon certification of such amount. The transfer shall be made as follows:
 - An amount equal to the amount actual GF net receipts exceed estimated GF net receipts is transferred immediately; and
 - The remainder, if any, shall be transferred by the end of the subsequent fiscal year.
3. If the transfer causes the balance in the Cash Reserve Fund to exceed sixteen percent of the total budgeted General Fund expenditures for the current fiscal year, such transfer shall be reduced so that the balance of the Cash Reserve Fund does not exceed such amount.

Under the new provisions, the \$8 million above the July 2023 certified forecast is estimated to be transferred to the Cash Reserve Fund at this time. While the balance in the Cash Reserve Fund exceeds 16% of the total budgeted General Fund expenditures for FY23-24, the new provision takes into account whether this is the case for FY24-25. It is currently projected that the CRF balance is 15.6% of budgeted GF expenditures in FY24-25, and the \$8 million transfer to the CRF does not increase that percentage above 16%.

Transfers-To & From General Fund

Unlike the automatic transfers that occur after the close of the fiscal year and are statutorily required, other transfers can take place as specifically enacted by the Legislature. The enacted budget included two transfers to the General Fund from the Cash Reserve Fund. These include \$440 million in FY23-24 due to the revenue forecast being recertified following the April 2023 forecast after a reduction in the FY22-23 forecast, and \$1 million in FY24-25 for the Precision Agriculture grant program pursuant to LB 361. In addition, LB 531, enacted in 2023, included a CRF transfer to the General Fund in FY22-23 of \$10 million for the Economic Recovery Act.

Transfers To & From Other Funds

In addition to the transfers to the General Fund, there are several transfers to and from the Cash Reserve Fund. These funds are listed in Table 9. For more detail on these funds, please refer to the 2023 Biennial Budget Report.

Table 10 - Cash Reserve Fund – Historical Balances

	Beginning Balance	Direct Deposit and Interest	Automatic Transfers (1)	Legislative Transfers (2)		Ending Balance	EB as % of revenues	EB as % of expend
				Gen Fund	Other Funds			
FY1991-92	31,937,043	0	na	(5,000,000)	0	26,937,043	1.8%	1.7%
FY1992-93	26,937,043	0	na	(9,500,000)	0	17,437,043	1.1%	1.1%
FY1993-94	17,437,043	0	3,063,462	7,250,000	0	27,750,505	1.7%	1.7%
FY1994-95	27,750,505	0	(8,518,701)	7,250,000	(6,000,000)	20,481,804	1.2%	1.2%
FY1995-96	20,481,804	0	(20,481,804)	18,189,565	0	18,189,565	1.0%	1.0%
FY1996-97	18,189,565	0	19,740,786	3,032,333	0	40,962,684	2.0%	2.2%
FY1997-98	40,962,684	0	91,621,018	0	0	132,583,702	6.3%	6.9%
FY1998-99	132,583,702	0	111,616,422	(96,500,000)	(2,000,000)	145,700,124	6.9%	6.5%
FY1999-00	145,700,124	0	20,959,305	3,500,000	(28,000,000)	142,159,429	5.9%	6.1%
FY2000-01	142,159,429	0	77,576,670	(24,500,000)	(25,000,000)	170,236,099	6.9%	6.9%
FY2001-02	170,236,099	0	0	(59,800,000)	(370,000)	110,066,099	4.7%	4.2%
FY2002-03	110,066,099	66,476,446	0	(87,400,000)	0	59,142,545	2.4%	2.3%
FY2003-04	59,142,545	59,463,461	0	(61,191,862)	(385,807)	87,028,337	3.2%	3.4%
FY2004-05	87,028,337	8,170,556	108,727,007	(26,000,000)	(758,180)	177,167,720	5.8%	6.5%
FY2005-06	177,167,720	0	261,715,297	0	(165,266,227)	273,616,790	8.2%	9.4%
FY2006-07	273,616,790	0	259,929,524	(15,674,107)	(1,784,416)	516,087,791	15.1%	16.5%
FY2007-08	516,087,791	0	191,436,773	(60,177,767)	(101,801,000)	545,545,797	15.6%	16.8%
FY2008-09	545,545,797	0	116,976,571	(54,990,505)	(29,340,000)	578,191,863	17.2%	17.4%
FY2009-10	578,191,863	0	0	(105,000,000)	(5,990,237)	467,201,626	14.6%	14.1%
FY2010-11	467,201,626	0	0	(154,000,000)	0	313,201,626	8.9%	9.4%
FY2011-12	313,201,626	8,422,528	145,155,092	(37,000,000)	3,560,802	428,878,372	11.6%	12.4%
FY2012-13	428,878,372	0	104,789,781	(78,000,000)	(76,008,427)	384,121,402	9.5%	10.7%
FY2013-14	384,121,402	0	285,292,610	49,400,000	251,294	719,065,306	17.5%	18.7%
FY2014-15	719,065,306	0	96,721,232	(67,701,112)	(20,250,000)	727,835,426	16.9%	18.1%
FY2015-16	727,835,426	0	84,599,532	0	(81,779,850)	730,655,108	17.0%	17.4%
FY2016-17	730,655,108	0	0	0	(50,000,000)	680,655,108	16.0%	15.7%
FY2017-18	680,655,108	265,729	0	(225,000,000)	(115,930,772)	339,990,065	7.4%	7.8%
FY2018-19	339,990,065	0	61,995,773	(48,000,000)	(20,436,714)	333,549,124	6.8%	7.6%
FY2019-20	333,549,124	0	176,378,178	0	(83,619,600)	426,307,702	8.6%	9.2%
FY2020-21	426,307,702	0	10,655,528	0	30,000,000	466,963,230	7.8%	10.3%
FY2021-22	466,963,230	0	535,259,365	50,000,000	(124,700,000)	927,522,595	14.6%	19.9%
FY2022-23	927,522,595	0	1,287,998,995	40,000,000	(707,670,000)	1,547,851,590	24.3%	30.0%
FY2023-24 Est	1,547,851,590	0	2,982,492	440,000,000	(1,132,558,825)	858,275,257	13.3%	16.0%
FY2024-25 Est	858,275,257	0	7,874,000	(1,000,000)	(25,458,800)	839,690,457	13.2%	15.6%
FY2025-26 Est	839,690,457	0	0	0	(50,000,000)	789,690,457	12.5%	14.4%
FY2026-27 Est	789,690,457	0	0	0	(50,000,000)	739,690,457	11.7%	13.2%

General Fund Appropriations

The appropriations for the **current biennium** (FY2023-24 and FY2024-25) are the amounts enacted during the 2023 legislative session.

For the **“following biennium”** (FY2025-26 and FY2026-27), the increase reflects the annualized impact of current budget actions plus an estimate of future year increases in entitlement programs, salary and health insurance increases, and other funding requirements that are normally not optional. It is an estimate based on “current law”, i.e. an estimate of future obligations with no change to underlying law that creates the obligation. These estimates incorporate the anticipated fiscal impact due to enacted 2023 legislation.

Table 11 –Estimated Appropriations by Category FY25-26 and FY26-27

Estimated % Change by Program for Appropriations	Annual % Chg	Annual % Chg	Proj. \$ Inc.	Proj. \$ Inc.
	FY2025-26	FY2026-27	FY2025-26	FY2026-27
Special Education	1.00%	1.00%	2,545,824	5,119,144
Aid to K-12 Schools (TEEOSA)*	1.43%	2.35%	13,549,663	36,032,500
Aid to ESU's	0.00%	0.00%	0	0
Homestead Exemption	6.00%	6.00%	7,908,000	16,290,480
Developmental Disabilities Aid	2.00%	2.00%	3,951,344	7,981,714
Behavioral Health aid	3.50%	3.20%	2,991,333	5,857,896
Public Assistance	0.00%	1.00%	0	839,803
Children's Health Insurance (CHIP)	2.00%	2.00%	624,926	1,262,350
Child Welfare Aid	7.00%	2.00%	12,753,363	16,660,670
Medicaid	2.10%	2.00%	20,540,212	41,491,229
Aging Programs	0.00%	0.00%	0	0
Nebraska Career Scholarships	2.00%	2.00%	403,800	807,600
Community Colleges	2.00%	2.00%	2,282,334	4,610,315
Salaries	3.00%	3.00%	25,404,867	51,571,879
Health Insurance	4.00%	4.00%	4,440,454	9,058,525
Agency Operations increase	3.00%	3.00%	6,623,771	16,435,858
University + State Colleges	2.24%	2.26%	16,395,194	33,302,365
Inmate per diem costs	2.00%	2.00%	1,188,037	2,399,835
Retirement (Schools, Patrol, Judges)	fixed	fixed	(66,831)	2,100,000
CONSTRUCTION	fixed	fixed	14,140,896	14,140,896
TOTAL GENERAL FUND (Biennial Basis)			135,677,187	265,963,060

* Does not include the impact of the 2023 Nov TEEOSA estimate meeting

Table 12 – Total Estimated Appropriations FY25-26 and FY26-27

Operations	2,203,626,424	2,264,913,194
State Aid to Ind/Other	1,767,918,367	1,801,150,852
State Aid to Local Govt	1,469,028,190	1,501,394,567
Construction	35,444,824	35,444,824
2024 Adjustments	(58,516,804)	(61,917,044)
Total (w/o deficits)	5,447,506,264	5,574,391,897
Annual \$ Change - Appropriations	106,023,138	126,885,633
Estimated Growth Rates for Appropriations		
Operations	2.5%	2.8%
State Aid to Ind/Other	2.4%	1.9%
State Aid to Local Govt	1.8%	2.4%
Construction	66.4%	0.0%
Annual % Change - Appropriations (w/o deficits)	2.0%	2.3%

Aid to Local Governments

State Aid to Schools (TEEOSA) The estimates for FY26 and FY27 shown in this table are the out-year estimates from the end of the 2023 session, including enactment of LB 583. The changes in the FY26 and FY27 estimates are shown in a separate line on the General Fund financial status, and discussed in the TEEOSA state aid section.

Special Education Increases reflect the historical average (10 yr average is just below 1.0%).

Aid to Community Colleges For the following biennium, a 2.0% per year increase is included reflecting state aid to support operations budget increases. This increase amounts to a \$2.3 million per year increase and is similar to the historical average for General Fund appropriation growth (1.8% 10 yr average).

Homestead Exemption A 6% per year annual increase is included for the following biennium budget reflecting the historical average (6.0% 10 yr average).

Aid to Individuals

Medicaid For the following biennium, the growth is 2.1% in FY25-26 and 2.0% in FY26-27. The growth rate is slightly higher in FY25-26 to reflect increases due to added costs of LB 276 (2023) that year. Historical average growth is 2.2% (10 yr average). This estimate also assumes no change in the federal match rate.

Public Assistance A basic growth rate of 0.0% is used in FY25-26 and 1.0% in FY26-27, reflecting historical average growth that is nearly flat.

Child Welfare A growth rate of 7.0% is utilized for FY25-26 and 2.0% for the following biennium. This reflects the anticipated increase in FY25-26 for provider rates that are funded by ARPA funds in the FY23-24/FY24-25 biennium being funded by General Funds in the following biennium as ARAP funds are no longer available. The anticipated increase in the second year of the biennium is closer to the historical average (2.9% 10 yr average).

Children's Health Insurance (CHIP) For the following biennium, a 2.0% per year increase is used.

Developmental Disability Aid A 2.0% per year increase is included. This is lower than the historical average of 3.7% (10 yr average).

Behavioral Health Aid. This area includes substance abuse and mental health aid. The increases in the following biennium reflect a 3.5% increase in FY23-24 and a 3.2% increase in FY24-25, which is higher than the historical average but also includes the anticipated costs of LB 276 (2023) (2.4% 10 yr average).

Nebraska Career Scholarships. In the 2020 session, the Governor's budget recommendation included funding and distribution language for the Nebraska Career Scholarship Program through the University of Nebraska, State Colleges, and Community Colleges (through Dept. of Economic Development). The program has been codified, and originally intended increases have been enacted through FY24 (now appropriated at \$20.2 million through the three agencies). A 2.0% increase in the program is reflected in the estimates, which is just over \$400,000 each year.

Agency Operations / Construction

Employee Salary Increases Although salary increases will be the result of bargaining, some level of increase is factored in more for illustration than planning purposes. A 3.0% per year increase is included, which approximates inflation.

Employee Health Insurance For planning purposes, an 4.0% per year increase in health insurance is included for the following biennium, similar to the prior biennium.

University and State Colleges Funding The calculated amounts are based on applying the same salary and health insurance increases as noted for state employees planning purposes, and applying them to both the University and State Colleges. Included for FY26 is a 2.2% increase and for FY27, a 2.3% increase.

Operations Inflation Included in the projected status is a general 3% increase in agency non-personnel operating costs. Although not provided as an across the board increase, this amount includes operations expenses related to enacted A bills and also historically covers increases in utility costs at state and higher education facilities as well as food and other inflationary cost increases at 24/7 state facilities such as veterans homes, BSDC, etc...

Inmate Per Diem Costs While some costs at the Dept. of Correctional Services such as staffing are "fixed" within a range of inmate population, some costs change directly with each inmate. This includes food, clothing, and medical care. A 2% per year increase is included to reflect these increases. (3.2% 10 yr average).

Defined Benefit Retirement Plans The increase in funding for the defined benefit retirement plans for FY26 and FY27 reflects the estimated increase in the state's retirement plans.

Capital Construction

General Fund dollars included in the projected budget for capital construction reflect reaffirmations only. These are dollar amounts needed to complete funding of projects approved in previous legislative sessions.

Appendix A

Statutory Provisions - Tax Rate Review Committee

Statutory Required Meetings

Section 77-2715.01 relates to the Legislature setting the sales and income tax rates and creates the Tax Rate Review Committee and its duties and responsibilities

“(1)(a) Commencing in 1987 the Legislature shall set the rates for the income tax imposed by section 77-2715 and the rate of the sales tax imposed by subsection (1) of section 77-2703. For taxable years beginning or deemed to begin before January 1, 2013, the rate of the income tax set by the Legislature shall be considered the primary rate for establishing the tax rate schedules used to compute the tax.

(b) The Legislature shall set the rates of the sales tax and income tax so that the estimated funds available plus estimated receipts from the sales, use, income, and franchise taxes will be not less than three percent nor more than seven percent in excess of the appropriations and express obligations for the biennium for which the appropriations are made. The purpose of this subdivision is to insure that there shall be maintained in the state treasury an adequate General Fund balance, considering cash flow, to meet the appropriations and express obligations of the state.

(c) For purposes of this section, express obligation shall mean an obligation which has fiscal impact identifiable by a sum certain or by an established percentage or other determinative factor or factors.

2) The Speaker of the Legislature and the chairpersons of the Legislature's Executive Board, Revenue Committee, and Appropriations Committee shall constitute a committee to be known as the Tax Rate Review Committee. The Tax Rate Review Committee shall meet with the Tax Commissioner within ten days after July 15 and November 15 of each year and shall determine whether the rates for sales tax and income tax should be changed. In making such determination the committee shall recalculate the requirements pursuant to the formula set forth in subsection (1) of this section, taking into consideration the appropriations and express obligations for any session, all miscellaneous claims, deficiency bills, and all emergency appropriations. The committee shall prepare an annual report of its determinations under this section. The committee shall submit such report electronically to the Legislature and shall append the tax expenditure report required under section 77-382.

In the event it is determined by a majority vote of the committee that the rates must be changed as a result of a regular or special session or as a result of a change in the Internal Revenue Code of 1986 and amendments thereto, other provisions of the laws of the United States relating to federal income taxes, and the rules and regulations issued under such laws, the committee shall petition the Governor to call a special session of the Legislature to make whatever rate changes may be necessary.”

Annual Report

LB962 enacted in the 2012 legislative session included a new requirement that the Tax Rate Review Committee (TRRC) prepare an annual report of its determinations, submit such report electronically to the Legislature, and append the tax expenditure report required under section 77-382 to such annual report. LB33 enacted in the 2015 legislative session also required the preparation of a volatility report (now section 50-419.02) and append that report to the TRRC annual report.

As the Tax Rate Review Committee meets twice each year, for purposes of this provision the annual report will be prepared after the required November meeting

