

TAX RATE REVIEW COMMITTEE
November 19, 2012

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The Tax Rate Review Committee met at 1:30 p.m. on Monday, November 19, 2012, in Room 1003 of the State Capitol, Lincoln, Nebraska for the purpose of conducting a meeting. Members present: Senator John Wightman, Chairperson; Senator Abbie Cornett; Tax Commissioner Doug Ewald; and Senator Mike Flood (via phone). Senators absent: Lavon Heidemann. Also present: Mike Calvert, and Patrick O'Donnell.

SENATOR WIGHTMAN: Okay. At this point, we'll go ahead and open the Tax Rate Review Committee meeting that is required by statute; and we have five members, three of which are present in person, one by telephonic conference. We have myself, Senator John Wightman, who will be chairing the meeting; Senator Abbie Cornett is here with us; and Doug Ewald, Tax Commissioner, is here with us. We have the committee clerk here, and so I think we're ready to start. I'm going to open the meeting to you, Mr. Michael Calvert, who is our financial representative, and we'll start the meeting with him and the information that he's presenting to us today.

MIKE CALVERT: (Exhibit 1) Very good. Thank you, Senator. The report that was sent to you by e-mail and by postal mail dated November...for the November 19 meeting, today, was prepared by our office. This is a statutorily required meeting. This report analyzes the forthcoming biennial budget period ending June 30, 2015. Up until now, those have been planning numbers in our prior General Fund financial status. Since we received October...the end of October forecast from the Forecasting Board for those respective fiscal years and, of course, we're now moving into the biennial budget cycle that covers those years, those now become the balancing point or target that we try to assess going forward in this report. Then, subsequently, we add two additional years for planning purposes that carry us through 2017. The projected financial status for the General Fund, that is on page 4, for the projected biennium that we're going to be building a budget for shows an ending balance of about \$195 million below the minimum reserve requirement. The minimum reserve requirement is the 3 percent to 7

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percent reserve that is calculated each biennium as we go through the budget process. This \$195 million shortfall to the minimum reserve actually is a substantial improvement compared to the July report that was submitted to this board which called for an estimate of about \$624 million short of meeting that reserve requirement. So what's changed? If you go to page 5, probably the simplest process for you to walk through and that is the chronology at the top. I start from that line immediately below line number 4. The variance from the minimum reserve for your committee meeting back in July 2012 was about \$624 million. There's two significant events, really, that have caused that to move in our assessment: number one, line five, the revised revenue forecast for the current fiscal year, plus the initial forecast for fiscal '14 and fiscal '15 that took the place of the planning numbers that we were using. We had relatively low growth rates in those plan numbers. The revised forecast actually became about a percent to a percent and a half higher in terms of year over year growth over the prior year. So all told, those changes added about \$295 million to the revenue side; in other words, narrowed that \$620 million gap by almost \$300 million. Now \$57 million of that will go to the Cash Reserve Fund, assuming we hit the revenue estimate for this current fiscal year, so on netted is somewhat less. But we calculated, just based on revenue alone, about \$393 million shortfall to the minimum reserve. Subsequent to that, we have also revised our outlook with respect to some of the expenditure items. Primarily school aid has moved significantly. There is a write-up in there in the analysis, but there is a formal process involving the Fiscal Office, the Budget Office, and the Department of Education that goes through more current data as it becomes available. And about, I think, November 15 there is a certification required, and based on that certification, projections on school aid. Looks like school aid costs are not going to grow as dramatically; and there is a discussion in the write-up that accompanies this. So all told then, given those transactions along with those on the bottom of page 5, because there are some other expenditure items that are moving in both directions, you can see the school aid adds some room in terms of meeting our reserve requirement. But there are some other changes, too, in terms of public assistance, child welfare. Medicaid is adjusted to the request level. Health insurance we were assessing at about 5 percent

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year over year growth this time; replacement of some one-time cash. Behavioral health is, I think, at 0 percent, or...yeah, 3 to 0 percent. Then there are some other things that are going to cause some costs. Defined benefit retirement, based on the request, is going to perhaps cost more than what we had originally anticipated. We do have some preliminary estimates on healthcare reform, but this does not include Medicaid expansion; it does not include estimated cost of the exchange. And there's also a discussion on page 16 of those particular items that we feel fairly comfortable with, with respect to the healthcare reform cost impacts. There will be a hearing on an LR with the Health Committee, I think, November 27. And I think we'll have a more expanded discussion and analysis of those items for that committee to review. So all told then, given those changes, we're looking at, again, as I pointed out on page 4, a shortfall to the minimum reserve of about a hundred and...in round numbers, \$195 million, and that's on line 26 on page 4. Future projections: growth rates and expenditure growth seem to match a little bit more closely. You'll see that there is very little change in terms of the expected shortfall. It only goes to about \$206.9 million, but these are all preliminary estimates. The estimates that we've put together for this biennium are subject to change. We have gone through and evaluated and tried to get an idea that as to the cost consequences based on budget request. But we haven't verified everything yet, so it's an ongoing process. [TAX RATE]

SENATOR WIGHTMAN: Okay. A couple of questions on... [TAX RATE]

MIKE CALVERT: Yes, sir. [TAX RATE]

SENATOR WIGHTMAN: ...under appropriations on page 4. [TAX RATE]

MIKE CALVERT: Yes. [TAX RATE]

SENATOR WIGHTMAN: Do we take into account the amount that will be used out of our tax collections for motor vehicles? Doesn't that start in 2013 on...? [TAX RATE]

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MIKE CALVERT: Oh, as far as...you're talking about, what, LB84 I think it was, where the quarter cent, yes. [TAX RATE]

SENATOR WIGHTMAN: Senator Fischer's bill. [TAX RATE]

MIKE CALVERT: That...yes. So when we made our forecasts for the Forecasting Board, both us and Department of Revenue, it's all based on current law. And based on current law we adjusted our sales tax receipts, I think, starting...was it...is it '13-14? [TAX RATE]

SENATOR CORNETT: '13-14. [TAX RATE]

SENATOR WIGHTMAN: I think it's '13-14. [TAX RATE]

SENATOR CORNETT: It's '13-14. [TAX RATE]

MIKE CALVERT: '13-14. So those sales tax estimates that come to the General Fund were lowered in anticipation of that. [TAX RATE]

SENATOR WIGHTMAN: Okay. [TAX RATE]

MIKE CALVERT: I mean that's current law and that's where the money is going to go. [TAX RATE]

SENATOR WIGHTMAN: Thank you. Any other questions by anyone from the committee? Senator Flood. Is he still on? [TAX RATE]

SENATOR CORNETT: Mike. [TAX RATE]

SENATOR WIGHTMAN: Mike Flood. Do I have to push something to... [TAX RATE]

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_____: No, he should be there. [TAX RATE]

SENATOR CORNETT: No, let me call him. [TAX RATE]

MIKE CALVERT: He should be there. [TAX RATE]

SENATOR WIGHTMAN: Okay. [TAX RATE]

SENATOR FLOOD: I'm here. I'm here. [TAX RATE]

SENATOR WIGHTMAN: Oh, okay. (Laughter) You probably don't have everything in front of you. Do you have any questions? [TAX RATE]

SENATOR FLOOD: I've looked it all over. I do have it in front of me and, no, I do not have any questions. [TAX RATE]

SENATOR WIGHTMAN: Okay, thank you. Anyone else? If not, it would appear that we will not have any need to raise any taxes during the period between now and whenever our budget is completed for the 2013-14 year. Is that your understanding and that's your...? [TAX RATE]

MIKE CALVERT: That is the option that this committee has to determine whether that's necessary. [TAX RATE]

SENATOR FLOOD: Senator...Chair, I would move that we not petition the Governor for a special session, and would also move in the same motion that we not ask that the tax rates be adjusted (inaudible). [TAX RATE]

SENATOR CORNETT: I'll second that. [TAX RATE]

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SENATOR WIGHTMAN: Okay. It's been moved and seconded that we not petition the Governor to have any tax increases that would be required under this section. Let's have a roll call vote. I'll start with you, Mike Flood. [TAX RATE]

SENATOR FLOOD: Yes on the motion. [TAX RATE]

SENATOR WIGHTMAN: Okay. Abbie Cornett. [TAX RATE]

SENATOR CORNETT: Yes. [TAX RATE]

SENATOR WIGHTMAN: Doug Ewald. [TAX RATE]

DOUG EWALD: Yes. [TAX RATE]

SENATOR WIGHTMAN: John Wightman votes yes. And I understand that Lavon Heidemann is not present. [TAX RATE]

MIKE CALVERT: Correct. [TAX RATE]

SENATOR WIGHTMAN: So it does have a 4-0 vote. But with that I will...in addition to that, I'll make a separate motion with regard to forwarding information to Patrick O'Donnell and that will include...do you want to go ahead and read that, Mike. [TAX RATE]

MIKE CALVERT: (Exhibit 2) Sure. Sure. Legislation that was enacted during 2012 Session gave this board a name but also required that you file an annual report with the Clerk of the Legislature. So I drafted a very brief letter and made that part of the packet. And there was no guidance in the statute, so I just simply thought we could attach electronically to this letter the two copies of the reports that we submit to you in

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November and in July and make that part of the report, and then also refer to the tax expenditure report and incorporate that by reference, which Senator Heidemann and I had a conversation with the introducer, who was Senator Pahls, at the time and he seemed to think that that was fine. [TAX RATE]

SENATOR WIGHTMAN: Does somebody want to make that motion? [TAX RATE]

SENATOR CORNETT: I'll make that motion. [TAX RATE]

SENATOR WIGHTMAN: Okay. [TAX RATE]

SENATOR FLOOD: Second. [TAX RATE]

SENATOR WIGHTMAN: Okay. The motion has been made and seconded that we approve that report. Again, I'll take a, I think, a roll call vote. We'll start again with Senator Flood. [TAX RATE]

SENATOR FLOOD: Yes. [TAX RATE]

SENATOR WIGHTMAN: Senator Cornett. [TAX RATE]

SENATOR CORNETT: Yes. [TAX RATE]

SENATOR WIGHTMAN: Senator (sic) Ewald. [TAX RATE]

DOUG EWALD: Yes. Commissioner. [TAX RATE]

SENATOR WIGHTMAN: And Senator Wightman also votes yes. So the motion is carried. [TAX RATE]

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SENATOR FLOOD: Mr. Chair, this is Mike Flood. I just want to say it's good to hear you running the meeting and you sound good, so it's nice to have you back. [TAX RATE]

SENATOR WIGHTMAN: Thank you, it's good to be back. Is there anything else that needs to come before the body? [TAX RATE]

SENATOR CORNETT: I'll make a motion to adjourn. [TAX RATE]

SENATOR FLOOD: Second. [TAX RATE]

SENATOR WIGHTMAN: We have a motion and a second to adjourn. All in favor say aye. Opposed. Motion carried, we are hereby adjourned. Thank you, everybody. [TAX RATE]