



Budget Briefing

March 4, 2022

Today's presentation

- State's fiscal status/outlook
 - Fiscal 'bubble'?
 - Contributing factors
- Bills we're watching

Overview of the state's current fiscal situation

- Current status is rosy
 - Robust revenues coming in
- Federal funds have helped facilitate a strong recovery from COVID
 - Won't last forever
- *Reason to be cautious*

Fiscal ‘bubble’?

- “The classic definition of a bubble is people buying on false expectations about future prices”
- “A market phenomenon characterized by surges in asset prices to levels significantly above the fundamental value of that asset”
- Some experts are warning that we’re in one
 - If so and it bursts, state could be in difficult position

Sadalla, Marco Antonio V., “An overview of potential financial bubbles in the US financial markets,” Massachusetts Institute of Technology, June 2013.
Nasdaq, “Economic bubble,” accessed at [Nasdaq.com/glossary/e/economic-bubble](https://www.nasdaq.com/glossary/e/economic-bubble), accessed March 3, 2022.

Fiscal status – Current biennium

- Coming into session: \$412 million surplus on the floor
- Preliminary budget lowered surplus significantly to \$105 million
 - STARWARS, DHHS and salary adjustments for state employees
- February forecast:
 - Additional \$370 million current fiscal year (FY 22, *to cash reserve*)
 - Additional \$405 million next fiscal year (FY 23, *some to floor*)
- What's available for the floor is TBD
 - Committee likely to allocate some to budgetary items

Nebraska Legislature, Tax Rate Review Committee report, November 16, 2021.

Nebraska Legislature, Committee on Appropriations, "Appropriations Committee Preliminary Report," February 2022.

State of Nebraska, Nebraska Economic Forecasting Advisory Board meeting, February 28, 2022.

Fiscal status – Following biennium

- Following biennium: FY 2024-25 & FY 2025-26
- Coming into session: \$665 million surplus
- Appropriations Committee preliminary budget lowered surplus significantly to \$189 million
- February forecast:
 - *Didn't forecast these years*

Nebraska Legislature, Tax Rate Review Committee report, November 16, 2021.

Nebraska Legislature, Committee on Appropriations, "Appropriations Committee Preliminary Report," February 2022.

Fiscal status – Cash reserve fund

- Current balance (FY 22): \$997 million
- Projected balance next fiscal year (FY 23): \$1.7+ billion
 - Well above recommended balance
 - With economic uncertainty, a higher balance is warranted
- Preliminary budget does not fund canal but does fund a \$175 million transfer for new corrections facility

Nebraska Legislature, Tax Rate Review Committee report, November 16, 2021.

Nebraska Legislature, Committee on Appropriations, "Appropriations Committee Preliminary Report," February 2022.

Federal funds into Nebraska

- Federal funds to Nebraska: **\$24+ billion**
- CARES Act was nearly \$16 billion – two-thirds of total
 - A lot of direct stimulus to residents and businesses
- State still working on allocating ARPA funds of \$1.04 billion

Nebraska Legislature, Legislative Fiscal Office slide show at the Nebraska Economic Forecasting Advisory Board meeting, “Relative Magnitude of Federal Covid Assistance,” February 28, 2022.

Other indicators pointing to a fiscal “bubble”

- Experts: inflation, consumer shift to taxable goods during the pandemic and a strong stock market
- Monthly refundable Child Tax Credits have stopped going out
- General economic uncertainty
- *If the bubble bursts, revenues could drop off precipitously*

Lucy Dadayan, Tax Policy Center: Urban Institute & Brookings Institution, TaxVox: State and Local Issues, “Five Reasons Why States Should Proceed with Caution Despite Soaring Revenues,” February 8, 2022.

States across the nation are seeing the same

- Not unique to Nebraska
 - Numerous states are experiencing robust revenues with legislatures looking to cut taxes (Iowa, Mississippi among others)
- “This year’s large surpluses can quickly turn to shortfalls in the wake of permanent tax cuts...As a result, [states] should exercise caution with big tax cuts, tempting as they are in a time of large fiscal surpluses.”

Pitt, David, Associated Press, “Iowa governor signs flat tax bill into law,” March 1, 2022.

Lucy Dadayan, Tax Policy Center: Urban Institute & Brookings Institution, TaxVox: State and Local Issues, “Five Reasons Why States Should Proceed with Caution Despite Soaring Revenues,” February 8, 2022.

Fiscal status – Summing up

- It looks good for the current biennium
 - Arguably it should, considering the \$21+ billion of federal funds
- The following biennium is in question
 - Obligating any of the current surplus to ongoing spending or tax cuts could leave the state vulnerable
- Shrinking the revenue base will make it harder to maintain current service levels into the future, beyond current circumstances

Bills currently on Select File

- Annual cost of proposals on Select File: **\$732 million** (FY 27)
 - LB 723 – increase the LB 1107 floor
 - Annual cost, fully implemented: \$205 million
 - LB 825 – exempt 100% of Social Security benefits from income tax
 - Annual cost of LB 825, fully implemented: \$74 million
 - Legislature began to phase-in 50% exemption last year
 - Annual cost, 100% exemption: \$170 million

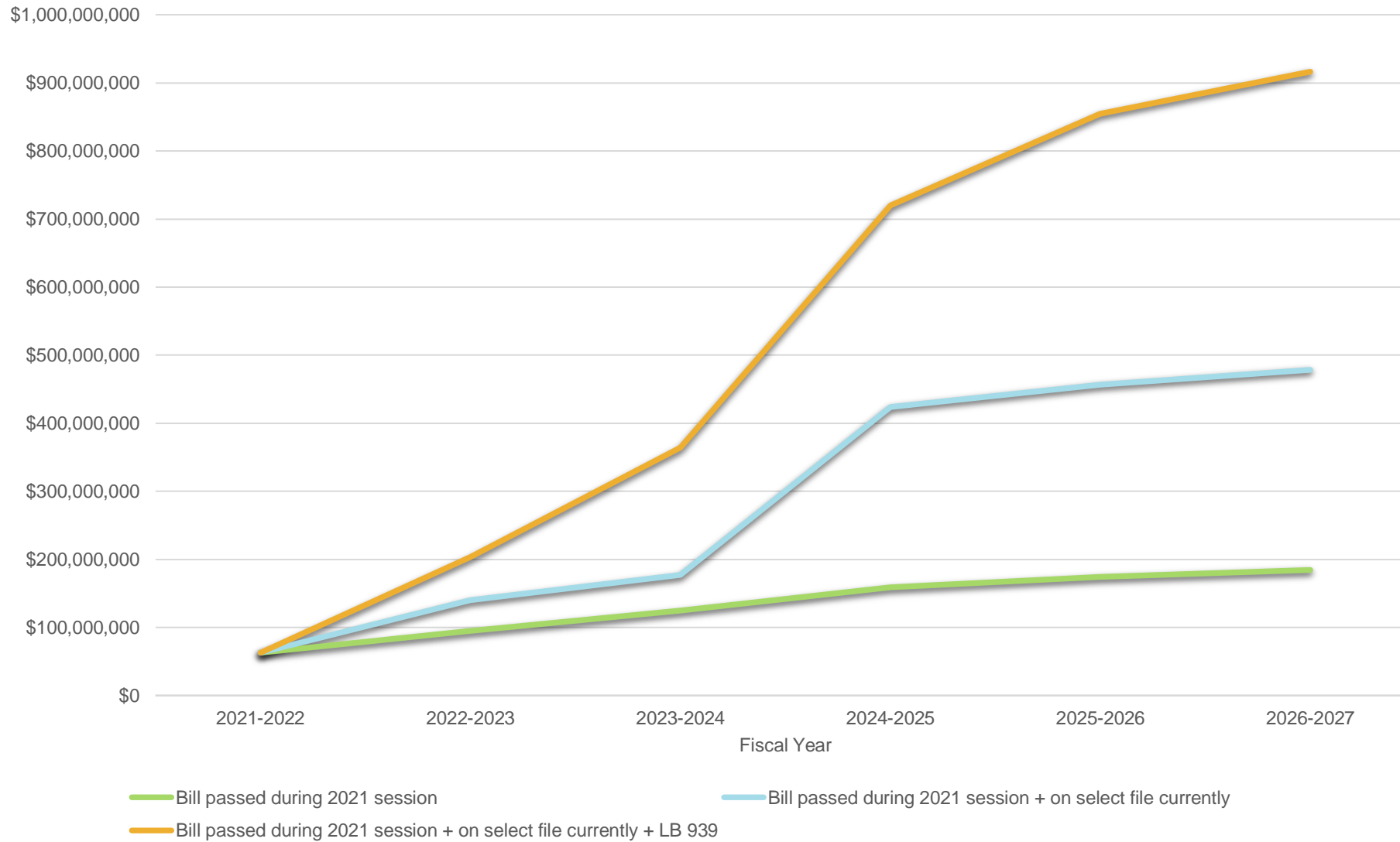
Nebraska Legislature, Legislative Fiscal Office Fiscal Note, LB 723 Revision: 01, January 19, 2022.
Nebraska Legislature, Legislative Fiscal Office Fiscal Note, LB 825 Revision: 00, January 11, 2022.

Bills currently on Select File

- LB 939 – Phase-in personal and corporate income tax cuts
 - Personal income tax top rate reduction: 6.84% to 5.84%
 - Top rate cuts largely benefit the wealthy
 - Corporate income tax top rate reduction: 7.50% to 5.84%
 - Corporate rate cuts flow to out-of-state taxpayers
 - Legislature cut corporate taxes last year
 - Annual cost, fully implemented: \$440 million

Nebraska Legislature, Legislative Fiscal Office Fiscal Note, LB 939 Revision: 01, March 1, 2022.

Revenue loss of LBs 723, 825 and 939



Budget bills

- State budget package: LBs 1011, 1012, 1013
 - Must be out of committee by March 11 (day 40)
 - Debated March 14?
- ARPA allocation bill: LB 1014
 - Will stimulate economy but unlikely to be as stimulative as CARES
 - Debated March 15?

Other bills we're watching

- Revenue Committee bills with fiscal impact & priority designation
 - Tax credit package (LB 730)
 - Contains scholarship tax credits, LB 1237
 - Sales tax package (LB 984)
 - Personal/corporate income tax cuts (LB 939 – on Select File)
 - Tax incentive package (LB 919? LB 1261?)
 - Elimination of community college levying authority (LB 873)

Thank you!

- Questions?