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**Capitol View
Commentary by J.L. Schmidt**

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**Lawmakers Ponder Economic Boom or Fiscal Bubble**

Is this a financial bubble or an economic boom?
 That's the question lawmakers ponder as they make second-year adjustments to the state budget. Analysts seem to think it's a bubble created by an influx of federal pandemic relief. The administration thinks the state coffers are burgeoning because of a booming economy.

Look at all the "help wanted" signs and make up your own mind.

The Appropriations Committee plan makes changes to the two-year budget passed last year. Under the plan, state spending would hit $9.8 billion during the two years ending June 30, 2023. But, based on new, more optimistic projections of state revenue, it would leave $453.6 million of state general funds available for tax cuts or other spending priorities.

Nebraska’s economy may be experiencing an unsustainable period of growth due in large part to an influx of federal funds, OpenSky Senior Analyst Craig Beck said recently, and this puts the state at risk of having to make major budget cuts in the future if legislators cut too much revenue this session.

The state’s revenue picture is much different than the one senators faced just a few years ago, when any bill that needed an appropriation was almost guaranteed to fail for lack of funding.  The question, however, is whether the picture is going to stay rosy, meaning we’re in an economic boom, or grow dark because the state is in a “fiscal bubble” in which our revenues are being inflated due to factors other than strong economic growth, Beck said.
 He believes the latter and I agree because the federal CARES Act provided $16 billion stimulus directly to both residents and businesses and helped prop up state’s sales tax receipts. Another $6 billion came through the American Rescue Plan Act (ARPA), the bulk of which has

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already been distributed. The Legislature will decide how to spend the final $1 billion but will need to wade through $3 billion in requests before doing so.

A total of $24 billion was allocated to the State of Nebraska in multiple forms. To put this in perspective, this is the equivalent of 22% of total state personal income. Many other states are experiencing the same revenue growth, thus making federal pandemic funding the culprit.

The magnitude of federal dollars and a few other indicators, including inflation and a shift in consumer buying away from services and toward taxable goods – both of which will boost sales tax receipts – and a strong stock market, lead to the bubble theory.
 If the bubble bursts, revenues could drop off precipitously, particularly if lawmakers reduce future revenues by passing major tax cuts this year, Beck said.

Governor Pete Ricketts has named three tax changes as his priorities — cutting the top income tax rates for individuals and corporations, eliminating income taxes on Social Security benefits, and continuing an income tax credit for property taxpayers at the current level. Lawmakers have given first-round approval to all three changes.

The downside is that the large amount of federal funding assistance is temporary.

Appropriations Committee chairman Sen. John Stinner of Gering led the committee in defeating an attempt by two members to put language in the budget prohibiting the state Department of Education from enacting new sex education standards.

“Putting this language in is a poison pill for the budget as long as I’m chair,” he said. “I think the budget should be about dollars and cents.”

But committee member Sen. Rob Clements of Elmwood argued the budget is often described as a “moral document” and said the current proposal includes several expressions of policy, saying “It is the intent of the Legislature ...” and requiring that funds be used “only” for certain purposes.

Both he and Sen. Steve Erdman of Bayard voted against the main budget bill because it did not include the sex education language.

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They also expressed concern that state spending would increase at a two-year average rate of 3.2% under the committee’s budget plan. Ricketts has repeatedly said his goal is to keep state spending growth at under 3% to make tax cuts possible.

I agree with Stinner. Let’s keep the budget about numbers. I agree with Beck. We’re in a bubble. Let’s plan for the burst – it rhymes with worst -- and keep our wits about us.

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*J.L. Schmidt has been covering Nebraska government and politics since 1979. He has been a registered Independent for more than 20 years.*