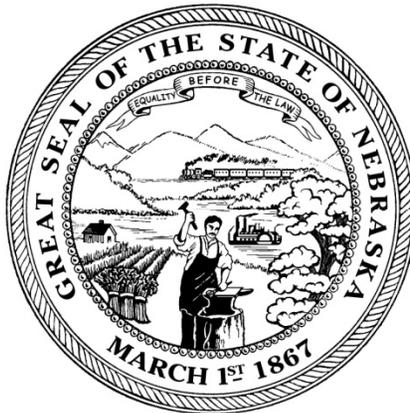


State of Nebraska

Executive Briefing

including
Mid-Biennium Budget Adjustments
2007 – 2009 Biennium



Dave Heineman

Dave Heineman
Governor

January 15, 2008

**Nebraska is
steadily and consistently
moving forward**

Nebraska is steadily and consistently moving forward

- Nebraska Advantage
 - 138 companies
 - \$4.6 billion investment
 - 12,000 new jobs

Nebraska is steadily and consistently moving forward

- Ethanol expansion
 - 12 plants in 2005
 - 21 plants in 2007
 - 27 plants by the end of 2008

- Production capacity
 - Grown from 675 million gallons to 1.3 billion gallons
 - Will exceed 2 billion gallons by end of 2008

Nebraska is steadily and consistently moving forward

- Expanded trade with Taiwan, China, Canada, Mexico, and Cuba
- Agriculture income up significantly
- A growing insurance industry – AFLAC, Pacific Life, Jefferson Pilot, Arch Specialty Insurance, USAA Direct, West Coast Life, Land America, Fidelity National Title, and Torchmark

Future Success

- ✓ A more competitive tax climate
 - Key to creating new jobs for young people
 - Expanding middle class job opportunities

- ✓ Nebraskans want:
 - Higher paying jobs
 - Better careers
 - Financial security
 - Expanded opportunities for their children

Vision for the Future

Imagine what it would be like
for our children if Nebraska
could create **large numbers of**
jobs that pay **twice** the current
Nebraska county average salary

NEBRASKA *Advantage*

Nebraska Super Advantage

Nebraska Super Advantage

- ✓ A new tier of performance-based incentives
- ✓ Rewards creation of higher paying jobs
- ✓ Innovative and creative approach
- ✓ Simple and straightforward
- ✓ The more high paying jobs a business creates, the more incentives they receive

Nebraska Super Advantage

- ✓ 200% of County Average Annual Wage or 150% of State Average Annual Wage (\$50,700), whichever is greater

- ▶ Examples of required average annual wage levels:

County	Average Annual Wage	Required Annual Wage	County	Average Annual Wage	Required Annual Wage
Lincoln	27,064	54,128	York	30,606	61,212
Scotts Bluff	28,093	56,186	Cheyenne	32,741	65,482
Madison	28,344	56,688	Lancaster	33,906	67,812
Buffalo	29,219	58,438	Sarpy	34,350	68,700
Hall	29,386	58,772	Douglas	40,002	80,004

Source: County Average Annual Wage - NE. Department of Labor; Nebraska Super Advantage calculations – State Budget Division

- ▶ Other examples:

County	Average Annual Wage	Required Annual Wage	County	Average Annual Wage	Required Annual Wage
Richardson	22,088	50,700	Box Butte	25,862	51,724
Dawes	23,034	50,700	Dundy	26,234	52,468
Red Willow	25,112	50,700	Otoe	26,927	53,854
Gage	25,498	50,996	Dakota	31,907	63,814

Source: County Average Annual Wage - NE. Department of Labor; Nebraska Super Advantage calculations – State Budget Division

NEBRASKA *Advantage*

Nebraska Super Advantage

Investment Thresholds

\$10 Million New Investment

75 New High Salary Jobs

All businesses qualify, excluding retail

Benefits Earned

15% Investment Tax Credit

10% Wage Credit

Direct Sales Tax Refund

10 Yr Exemption - Tangible Personal Property

Utilization of Benefits

Corporate Income Tax

Indirect Sales Tax

New Employee Withholding

Real Property Taxes

2005/2006/2007 Tax Relief

- New Property Tax Credit Program
- Repealed the death tax (estate tax)
- Eliminated the marriage penalty
- Expanded the Earned Income Tax Credit for low-income families
- Repealed the sales tax on construction labor

Expanded Property Tax Relief

- Invest an additional \$75 million in the Property Tax Credit Fund
- Total State Property Tax Credit investment of \$190 million in FY 2008-09
- \$151 of property tax relief per \$100,000 of assessed value (est. based on 2007 real property value)

Budget Challenge - State Aid to Schools

- \$53 million increase in FY 2008-09 compared to 2007 Sine Die estimate
- 17.5% annual increase in FY 2009
- 11% avg. annual growth in FY 2010 and FY 2011
- Next biennium – estimated \$433 million more than the current biennial budget
- Current formula is unpredictable and unsustainable

Budget Challenge - State Aid to Schools

TEEOSA School Aid Funding Impact

	FY2007-08	FY2008-09	FY2009-10	FY2010-11
	<u>Certified</u>	<u>Sine Die 2007 Est</u>	<u>Sine Die 2007 Est</u>	<u>Sine Die 2007 Est</u>
TEEOSA General Fund (Sine Die 2007)	753,555,548	832,498,267	879,970,261	935,036,175
Annual Change	49,178,335	78,942,719	47,471,994	55,065,914
% Change	7.0%	10.5%	5.7%	6.3%
Insurance Premium Tax	<u>15,058,425</u>	<u>14,803,428</u>	<u>15,173,513</u>	<u>15,552,851</u>
Total TEEOSA State Aid	768,613,973	847,301,695	895,143,774	950,589,026
	<u>Certified</u>	<u>Nov 2007 Est</u>	<u>Nov 2007 Est</u>	<u>Nov 2007 Est</u>
TEEOSA General Fund (Nov 15, 2007 Est)	753,555,548	846,339,639	932,578,249	1,036,973,551
Annual Change	49,178,335	92,784,091	86,238,610	104,395,303
% Change	7.0%	12.3%	10.2%	11.2%
Insurance Premium Tax	<u>15,058,425</u>	<u>15,483,000</u>	<u>15,870,075</u>	<u>16,266,827</u>
Total TEEOSA State Aid	768,613,973	861,822,639	948,448,324	1,053,240,378
	<u>Certified</u>	<u>Dec 2007 Est</u>	<u>Dec 2007 Est</u>	<u>Dec 2007 Est</u>
TEEOSA General Fund (Dec 21, 2007 Est)	753,555,548	885,517,000	984,120,961	1,088,016,270
Annual Change	49,178,335	131,961,452	98,603,960	103,895,310
% Change	7.0%	17.5%	11.1%	10.6%
Insurance Premium Tax	<u>15,058,425</u>	<u>15,483,000</u>	<u>15,870,075</u>	<u>16,266,827</u>
Total TEEOSA State Aid	768,613,973	901,000,000	999,991,036	1,104,283,097
GENERAL FUND - Dec 21, 2007 Increase over Sine Die 2007		53,018,733	104,150,699	152,980,095

Budget Challenge - State Aid to Schools

School Spending in Focus

- FY 2006-07 school spending grew significantly, but not evenly
- Schools in the Standard Cost Group – 170 school systems accounting for 89.4% of statewide public school spending – increased spending an average of 6.7% over FY 2005-06

Budget Challenge - State Aid to Schools

School Spending in Focus

- The 18 schools in the Standard Cost Group reporting over \$20 million in FY 2006-07 General Fund Operating Expenditures increased spending by an average of **7.9%**, accounting for over three-quarters of all spending growth in the Standard Cost Group. These schools include: **Bellevue, Columbus, Elkhorn, Fremont, Grand Island, Hastings, Kearney, Lexington, Lincoln, Millard, Norfolk, North Platte, Omaha, Omaha Westside, Papillion-La Vista, Ralston, Scottsbluff, and South Sioux City**
- The 152 schools in the Standard Cost Group with less than \$20 million General Fund Operating Expenditures in FY 2006-07 averaged 4.7% spending growth

Budget Challenge - State Aid to Schools

School Spending in Focus

- The 53 schools classified as Sparse reported average spending growth of 4.4%, while the 28 Very Sparse schools reported a 6.2% spending growth
- These high spending growth rates have occurred despite the fact that on their face, **current budget lids limit spending growth to 6.5%** (i.e., the sum of the 2.5% basic allowable growth rate, the “extra 1%” available by super-majority of the local school board, and the maximum 3% applicable allowable growth rate), after Special Education and other statutorily allowed lid exclusions are considered

Budget Challenge - State Aid to Schools

School Spending in the Standard Cost Group, FY 2005-06 and FY 2006-07

Standard Cost Group Schools Over \$20 million	General Fund Operating Expenditures			
	FY 2005-06	FY 2006-07	\$ Increase	% Increase
Omaha Public Schools	362,820,292	395,988,891	33,168,599	9.1%
Lincoln Public Schools	242,294,970	261,126,856	18,831,886	7.8%
Millard Public Schools	146,495,081	154,668,679	8,173,598	5.6%
Bellevue Public Schools	70,541,943	76,947,388	6,405,445	9.1%
Papillion-La Vista Public Schools	63,190,070	68,132,156	4,942,086	7.8%
Grand Island Public Schools	54,170,834	56,986,298	2,815,464	5.2%
Westside Community Schools	50,086,116	52,334,102	2,247,986	4.5%
Kearney Public Schools	33,199,603	37,491,711	4,292,108	12.9%
Fremont Public Schools	31,388,967	33,758,646	2,369,679	7.5%
Norfolk Public Schools	32,565,087	33,328,720	763,633	2.3%
North Platte Public Schools	29,346,558	32,355,564	3,009,006	10.3%
Elkhorn Public Schools	28,032,360	31,010,900	2,978,540	10.6%
So Sioux City Community Schools	25,745,225	28,661,772	2,916,547	11.3%
Columbus Public Schools	23,984,732	26,395,950	2,411,218	10.1%
Hastings Public Schools	23,971,538	24,870,903	899,365	3.8%
Ralston Public Schools	22,785,516	24,261,126	1,475,610	6.5%
Scottsbluff Public Schools	22,017,599	22,472,328	454,729	2.1%
Lexington Public Schools	19,467,107	22,409,880	2,942,773	15.1%
Standard Cost Group Schools Over \$20 million	1,282,103,598	1,383,201,870	101,098,272	7.9%
% of Standard Cost Group	64.6%	65.3%	75.5%	
Standard Cost Group Schools Under \$20 million	<u>701,136,355</u>	<u>733,949,333</u>	<u>32,812,978</u>	<u>4.7%</u>
All Schools in the Standard Cost Group	1,983,239,953	2,117,151,203	133,911,250	6.8%

SOURCE: Nebraska Department of Education, preliminary Annual Financial Reports, December 21, 2007. Calculations by DAS-Budget Division.

Financial Principles

- ☆ Strong Cash Reserve
- ☆ Long-Range View
- ☆ Fiscal Discipline

GENERAL FUND FINANCIAL STATUS

	FY2006-07	<u>Biennial Budget</u>		<u>Following Biennium</u>	
		FY2007-08	FY2008-09	FY2009-10	FY2010-11
1 <u>Beginning Balance</u>					
2 Beginning Cash Balance	\$565,963,976	\$591,204,274	\$316,941,357	\$215,644,567	\$94,149,744
3 Cash Reserve Fund transfer-Automatic	(259,929,524)	(191,436,774)	(68,814,000)		
4 Carryover obligations from FY2006-07		(171,013,048)			
5 Allocation for potential deficits			(5,000,000)	(5,000,000)	(5,000,000)
6 Unobligated Beginning Balance	306,034,452	228,754,452	243,127,357	210,644,567	89,149,744
7 <u>Revenues</u>					
8 Net Receipts (Certified; Oct. NEFAB; LFO Hist. Avg.)	3,403,644,627	3,458,000,000	3,589,000,000	3,792,000,000	4,014,000,000
9 General Fund transfers - out - current	(9,140,000)	(128,700,000)	(120,200,000)	(120,200,000)	(120,200,000)
10 General Fund transfers - in - current	In Receipts	In Receipts	In Receipts		
11 Cash Reserve Fund transfers - current	15,674,107	60,177,767	54,990,505		
12 Nebraska Super Advantage Legislation (2008 Session)				1,023,000	300,000
13 General Fund transfers - in (2008 Session)		10,000,000			
14 Transfer to Roads Operations Fund (2008 Session)			(15,000,000)		
15 General Fund Net Revenues	3,410,178,734	3,399,477,767	3,508,790,505	3,672,823,000	3,894,100,000
16 <u>Appropriations</u>					
17 Actual/Appropriations per 2007 Session	3,125,008,912	3,305,700,963	3,480,556,576	3,480,556,576	3,480,556,576
18 Outbiennium - LFO Spending Estimate - All Other				142,389,736	282,415,242
19 Outbiennium - TEEOSA Estimated Increases (2007 Session)				47,471,994	102,537,908
20 December TEEOSA Estimated Increases (2008 Session)			53,018,733	104,150,699	152,980,095
21 Mid-Biennium Adjustments (2008 Session)		5,525,259	2,842,388	14,995,388	2,842,388
22 Claims Bill (2008 Session)		64,640			
23 Agency Legislation (2008 Session)			(144,402)	(246,570)	(306,737)
24 General Fund Appropriations	3,125,008,912	3,311,290,862	3,536,273,295	3,789,317,823	4,021,025,472
25 <u>Ending Balance</u>					
26 Dollar ending balance	591,204,274	316,941,357	215,644,567	94,149,744	(37,775,728)
27 Biennial Reserve @ 3%	--	--	210,851,120	--	226,676,725
28 Variance from Minimum Reserve	--	--	4,793,447	--	(264,452,453)
29 Biennial Reserve (%)	--	--	3.07%	--	-0.48%
30 Annual Spending Growth (Appropriations)	--	4.1%	6.8%	7.2%	6.1%
31 Two Year Average Growth	--	--	5.4%	--	6.6%

CASH RESERVE FUND STATUS

	FY2006-07	Biennial Budget		Following Biennium	
		FY2007-08	FY2008-09	FY2009-10	FY2010-11
1 Beginning Balance	273,616,789	516,087,790	542,096,797	465,080,292	465,080,292
2 Transfer Amounts Above Forecasts	259,929,524	191,436,774	68,814,000		
3 To General Fund - current	(15,674,107)	(67,931,030)	(54,990,505)		
4 From General Fund - current		7,753,263			
5 To NCCF for Eastern NE Vets Home	(1,784,416)				
6 To NCCF for Assurity Life Building Acquisition		(12,000,000)			
7 To NCCF, non-long term construction projects		(75,000,000)	(9,590,000)		
8 To Nebraska Job Training Fund		(5,000,000)	(5,000,000)		
9 To Microenterprise Development		(1,000,000)	(1,000,000)		
10 To Building Entrepreneurial Communities		(250,000)	(250,000)		
11 To/From State Employees Insurance Fund		(12,000,000)			12,000,000
12 Property Tax Relief - To Property Tax Credit Fund (2008 Session)			(75,000,000)		
13 Ending Balance	516,087,790	542,096,797	465,080,292	465,080,292	477,080,292
Estimated Ending Balance - Sine Die 2007	504,087,791	494,765,024	423,934,519	423,934,519	435,934,519

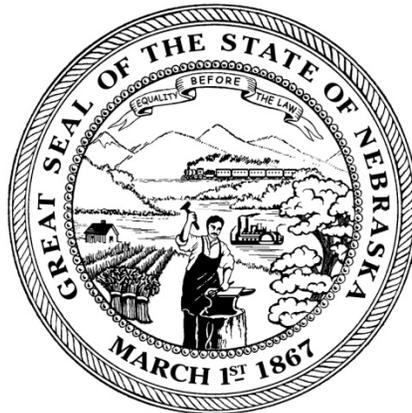
Priorities

- Job Creation
- Ever-increasing, competitive tax climate
- Strong Cash Reserve
- Fiscal Discipline
- Build Upon Past Successes

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