

# Nebraska Renaissance Group

**10 things (we think) you should  
know about the state budget...**

Legislative Fiscal Office & State Budget Office  
Strategic Air & Space Museum  
November 1, 2007

# INTRODUCTION AND BACKGROUND

- Department of Administrative Services – Budget Division
- Legislative Fiscal Office

# GOVERNANCE IN NEBRASKA

- Decision-Making Boundaries
- Organization and Processes
- State Government as the “Sandwich Generation” of American Governance

# PUBLIC POLICY-MAKING AND PUBLIC BUDGET-MAKING

- What Is It?
- What Came First – The Policy or the Budget?

# STATE AND LOCAL GOVERNMENT FINANCING

- Major Taxes

Source of Major State/Local Taxes	FY 1985-86	FY 2005-06	% of Total FY 1985-86	% of Total FY 2005-06
State Sales Tax	310,390,975	1,263,678,691	14.8%	19.2%
State Sales tax on motor vehicles	37,370,000	134,835,290	1.8%	2.0%
City Sales Tax	63,085,190	252,516,663	3.0%	3.8%
City Sales Tax on motor vehicles	5,715,712	22,696,469	0.3%	0.3%
<b>Total Sales Taxes</b>	<b>416,561,877</b>	<b>1,673,727,113</b>	<b>19.9%</b>	<b>25.4%</b>
Individual Income Tax	357,181,477	1,545,338,061	17.1%	23.4%
Corporate Income Tax	54,558,727	262,295,456	2.6%	4.0%
<b>Total Income Taxes</b>	<b>411,740,204</b>	<b>1,807,633,517</b>	<b>19.7%</b>	<b>27.4%</b>
Property Taxes (net of Homestead, credits)	982,130,054	2,228,274,134	46.9%	33.8%
Motor Vehicle fee/tax	0	214,717,805	0.0%	3.3%
<b>Total Property Taxes (net)</b>	<b>982,130,054</b>	<b>2,442,991,939</b>	<b>46.9%</b>	<b>37.0%</b>
Motor Fuels Taxes	126,513,214	310,113,432	6.0%	4.7%
MV registration fees	44,410,000	79,561,874	2.1%	1.2%
<b>Total Gas Tax / MV Reg Fees</b>	<b>170,923,214</b>	<b>389,675,306</b>	<b>8.2%</b>	<b>5.9%</b>
<b>State Misc. Taxes/Fees</b>	<b>112,104,988</b>	<b>280,875,316</b>	<b>5.4%</b>	<b>4.3%</b>
<b>State Total</b>	<b>2,093,460,337</b>	<b>6,594,903,191</b>		

# STATE AND LOCAL GOVERNMENT FINANCING

- Major Uses

<b>Use of Major State/Local Taxes</b>	<b>FY 1985-86</b>	<b>FY 2005-06</b>	<b>% of Total FY 1985-86</b>	<b>% of Total FY 2005-06</b>
University/State Colleges	187,919,290	467,444,879	9.0%	7.6%
Other State Gen Fund Operations	212,778,746	590,599,984	10.2%	9.6%
State Aid to Individuals/Other	142,031,330	827,675,413	6.8%	13.4%
State Capital Construction	14,404,660	19,779,491	0.7%	0.3%
State Dept of Roads	121,326,263	341,694,522	5.8%	5.5%
<b>State Use of Major Taxes</b>	<b>678,460,289</b>	<b>2,247,194,290</b>	<b>32.6%</b>	<b>36.5%</b>
K-12 Schools	796,489,569	2,336,138,404	38.2%	37.9%
Counties	222,465,161	547,616,169	10.7%	8.9%
Cities	260,632,845	663,499,093	12.5%	10.8%
Community Colleges+ESU's	62,038,226	181,192,748	3.0%	2.9%
Other Local Govt Entities	62,753,683	189,228,012	3.0%	3.1%
<b>Local Use of Major Taxes</b>	<b>1,404,379,484</b>	<b>3,917,674,426</b>	<b>67.4%</b>	<b>63.5%</b>
<b>State Total</b>	<b>2,082,839,773</b>	<b>6,164,868,715</b>		

# STATE BUDGET PROCESS FUNDAMENTALS

- Biennial Budget
- July to June Fiscal Year
- Odd Calendar Year is Budget-Making Legislative Session
- Even Calendar Year is the “Off Year”
- Typical Budget Cycle for “On Year”
- Typical Budget Cycle for “Off Year”
- Structure of Appropriations

# THE STATE BUDGET

- Total Appropriations by Fund Type

	<b>FY 2007-08 Approp</b>
General Fund	3,305,700,963
Cash Funds	1,417,667,738
Federal Funds	1,942,807,419
Revolving Funds	212,770,644
<b>Total</b>	<b>6,878,946,764</b>

# THE STATE BUDGET (CONT.)

- Total Appropriations by Aid, Operations, and Capital Construction

	FY 2007-08 Approp	%
Aid to Local Governments	1,462,440,569	21.3%
Aid to Individuals	2,458,673,471	35.7%
Aid to Other	134,097,338	1.9%
<b>Aid Subtotal</b>	<b>4,055,211,378</b>	<b>59.0%</b>
Operations	2,725,628,449	39.6%
Capital Construction	98,106,937	1.4%
<b>Total</b>	<b>6,878,946,764</b>	

# THE STATE BUDGET (CONT.)

- Agency Appropriations Top 25 (All Fund Types)

FY 2007-08 Approp			FY 2007-08 Approp		
1	Health and Human Services	2,793,576,056	14	State Patrol	63,967,929
2	Education	1,275,910,459	15	Economic Development	52,132,594
3	Roads	642,052,903	16	Labor	45,999,845
4	University of Nebraska	502,679,264	17	Retirement Board	30,969,526
5	Administrative Services	243,179,580	18	Treasurer	27,584,685
6	Revenue	225,523,248	19	Aeronautics	25,520,388
7	Correctional Services	166,493,813	20	Military Dept	24,322,818
8	State Colleges	95,425,876	21	Natural Resources	23,975,779
9	Public Service Comm.	86,450,805	22	Crime Commission	21,208,216
10	Community Colleges	84,066,476	23	Motor Vehicles	20,850,750
11	Supreme Court	81,907,957	24	Agriculture	17,951,987
12	Game and Parks	73,473,740	25	Educational Telecommunications	17,623,484
13	Environmental Quality	71,453,306			

# THE STATE BUDGET (CONT.)

- Agency Appropriations Top 25 (General Fund Only)

		FY 2007-08 Approp				FY 2007-08 Approp	
1	Health and Human Services		1,175,070,172	14	Administrative Services		14,320,527
2	Education		970,310,087	15	Crime Commission		10,928,737
3	University of Nebraska		478,262,341	16	Game and Parks		10,237,278
4	Correctional Services		145,977,755	17	Educational Telecommunications		9,682,282
5	Revenue		99,857,170	18	Attorney General		8,671,054
6	Community Colleges		84,066,476	19	Agriculture		8,268,192
7	Supreme Court		65,212,791	20	Environmental Quality		8,046,329
8	State Patrol		49,848,038	21	Postsecondary Coordinating Comm.		8,027,321
9	State Colleges		44,234,898	22	Economic Development		6,604,968
10	Treasurer		19,402,955	23	Military Dept		5,109,211
11	Retirement Board		19,140,688	24	Historical Society		4,298,929
12	Natural Resources		17,338,534	25	Library Commission		3,742,399
13	Legislative Council		16,697,967				

BREAK

# BOTH SIZE AND GROWTH RATE MATTER

- A small, fast growing program vs. a large, slower growing component
- Over a period of time drives overall growth rate higher

Year	Item A(8%)	Item B(2%)	Total	Annual % Chg.	A % of Total	B % of Total
1	30	70	100	na	30%	70%
2	32.4	71.4	103.8	3.8%	31%	69%
3	35.0	72.8	107.8	3.9%	32%	68%
4	37.8	74.3	112.1	3.9%	34%	66%
5	40.8	75.8	116.6	4.0%	35%	65%
6	44.1	77.3	121.4	4.1%	36%	64%
7	47.6	78.8	126.4	4.2%	38%	62%
8	51.4	80.4	131.8	4.3%	39%	61%
9	55.5	82.0	137.5	4.3%	40%	60%
10	60.0	83.7	143.6	4.4%	42%	58%
11	64.8	85.3	150.1	4.5%	43%	57%
12	69.9	87.0	157.0	4.6%	45%	55%
13	75.5	88.8	164.3	4.7%	46%	54%
14	81.6	90.6	172.1	4.8%	47%	53%
15	88.1	92.4	180.5	4.8%	49%	51%
16	95.2	94.2	189.4	4.9%	50%	50%
17	102.8	96.1	198.9	5.0%	52%	48%
18	111.0	98.0	209.0	5.1%	53%	47%
19	119.9	100.0	219.9	5.2%	55%	45%
20	129.5	102.0	231.4	5.3%	56%	44%

# BOTH SIZE AND GROWTH RATE MATTER (CONT.)

- Real-Life Example – Medicaid and TEEOSA School Aid vs. Higher Education

	FY1987-88	FY2007-08 Approp	Avg. Annual Growth % (FY1987-88 to FY2007-08)
TEEOSA School Aid	122,583,714	753,555,548	9.5%
University/State Colleges	204,972,117	515,872,239	4.7%
Medicaid	87,401,135	576,715,481	9.9%
Corrections Operations	38,472,552	142,067,755	6.7%
<b>Subtotal</b>	<b>453,429,518</b>	<b>1,988,211,023</b>	<b>7.7%</b>
All Other	437,299,257	1,317,489,940	5.7%
<b>Total</b>	<b>890,728,775</b>	<b>3,305,700,963</b>	<b>6.8%</b>

# BOTH SIZE AND GROWTH RATE MATTER (CONT.)

- Real-Life Example – Medicaid and TEEOSA School Aid vs. Higher Education

	FY1987-88	FY2007-08 Approp
<b>Percent of Budget</b>		
TEEOSA State Aid	13.8%	22.8%
University/State Colleges	23.0%	15.6%
Medicaid	9.8%	17.4%
Corrections Operations	4.3%	4.3%
<b>Subtotal</b>	<b>50.9%</b>	<b>60.1%</b>
All Other	49.1%	39.9%

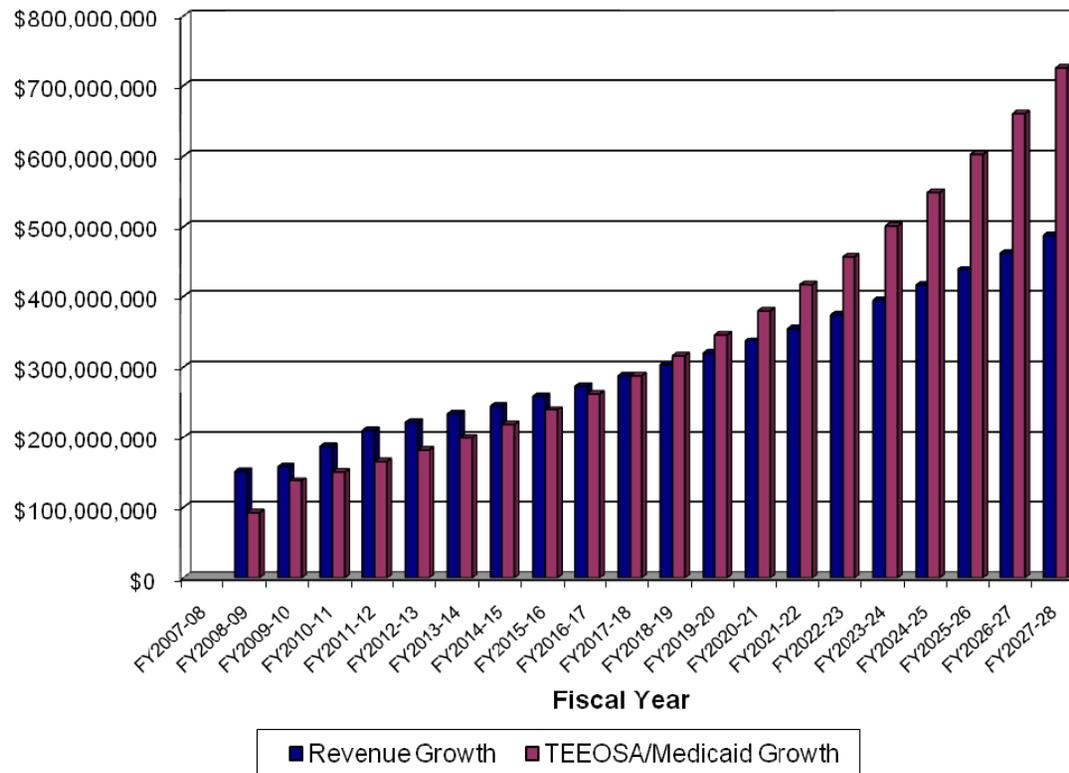
# SPENDING=PRICE X QUANTITY

- Examples –
  - ❑ Medicaid – Price (Provider rates) X Quantity (eligibility/utilization)
    - One additional significant factor – federal match rate
  - ❑ Corrections – Price (Medical, employee salaries) X Quantity (Inmates)
  - ❑ TEEOSA School Aid – Price (Teacher salaries, books, fuel, etc.) X Quantity (Students)
- Alone, each of these factors may not represent significant growth, but in combination, unsustainable growth becomes a risk
  - ❑ Medicaid Example:
    - Price = Provider Rates (i.e. 3%)
    - Quantity = Utilization (i.e. 2%)  
Eligibility (i.e. 2%)
    - Other = Federal Match Rate (i.e. 1%)
    - Combined Growth Rate in excess of 8%

# THE FUTURE OF TEEOSA AND MEDICAID?

- General Fund Revenue Annual Growth – 5.4%
- TEEOSA & Medicaid Annual Growth – 9.5%

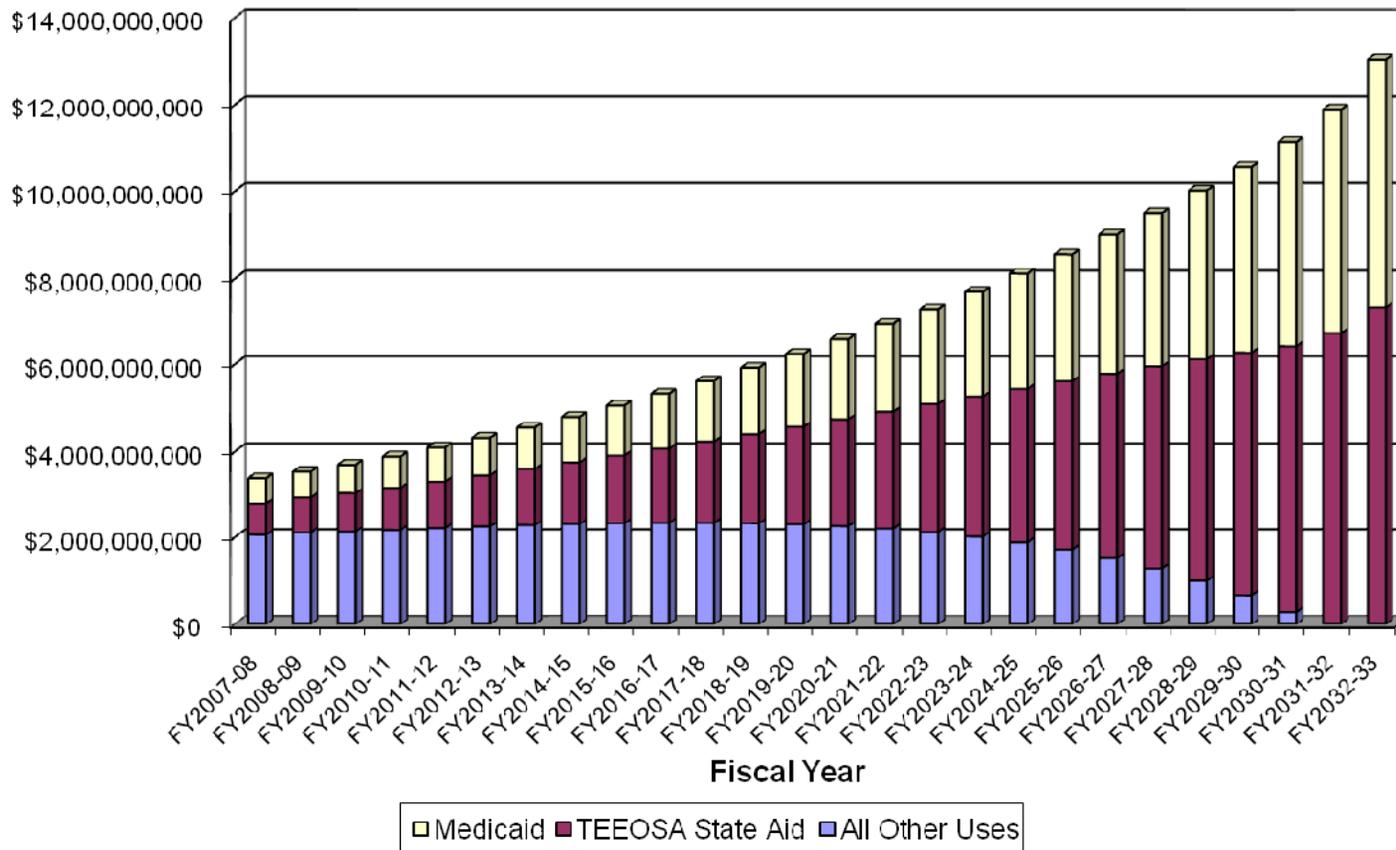
**GF Revenue Growth vs. TEEOSA/Medicaid Growth**  
FY2007-08 through FY2032-33



# SO HOW WOULD THE BUDGET LOOK IN 25 YEARS

- Long-term sustainability must be considered

**Projected Use of General Fund Receipts**  
FY2007-08 through FY2032-33



# TRASH OR TREASURE?

- 100% consensus to rid government of wasteful and unnecessary spending
- Reasonable people can have different opinions about what is priority and what is wasteful
  - Case in Point: Gravina Island “Bridge to Nowhere” – Ketchikan, AK
- Priorities are set in a political environment
  - Legislative Priority
    - 25 Votes
  - Final Priority
    - 25 + 1 -or- 30 + 0 -or- 33 + 0

# TRASH OR TREASURE? (CONT.)

- What are our treasures?
- Many would say:
  - Education
  - Public Safety
  - Human Services

# TRASH OR TREASURE? (CONT.)

- In the current fiscal year 2007-2008, funding for education, public safety, and human services represents **93%** of the State General Fund budget

	FY2007-08 Approp	FY2007-08 Percent of State Total
<b>Education</b>	<b>1,614,873,672</b>	<b>48.9%</b>
TEEOSA State Aid	753,555,548	22.8%
University of Nebraska	472,762,341	14.3%
Special Education	179,508,584	5.4%
Aid to Community Colleges	84,066,476	2.5%
State Colleges	43,109,898	1.3%
All Other Education	81,870,825	2.5%
<b>Public Safety</b>	<b>291,694,825</b>	<b>8.8%</b>
Corrections Operations	142,067,755	4.3%
Supreme Court Operations	65,212,791	2.0%
State Patrol Operations	49,848,038	1.5%
All Other Public Safety	34,566,241	1.0%
<b>Human Services</b>	<b>1,161,959,784</b>	<b>35.2%</b>
Medicaid	576,715,481	17.4%
Public Assistance	214,646,783	6.5%
Health and Human Services Operations	212,029,026	6.4%
Developmental Disability Aid	66,634,494	2.0%
Behavioral Health Aid	60,328,781	1.8%
All Other Human Services	31,605,219	1.0%
<b>Education, Public Safety &amp; Human Services</b>	<b>3,068,528,281</b>	<b>92.8%</b>
<b>All Other</b>	<b>237,172,682</b>	<b>7.2%</b>
<b>Total</b>	<b>3,305,700,963</b>	

# GENERATION GAP

- Demographic factors influence budget decisions
  - Nebraska is 7<sup>th</sup> in the country for percentage of population under 21 or over 65 – 1 of only 2 states in the Top 15 in both categories
    - Under 21 Population → K-12 Education
    - Over 65 Population → Medicaid
  - Tax contributors vs. net consumers

# LOCATION, LOCATION, LOCATION

- Demographic factors influence budget decisions
  - Nebraska's population is steadily shifting from the rural areas to Omaha and Lincoln – Impact on TEEOSA equalization aid
    - Example – Six new Class A high schools
    - Overall school age population relatively unchanged

QUESTIONS?