

Introduction

Governor Johanns' 2003-2005 biennial budget and legislative proposals reflect the reality of severe fiscal stress that continues to confront State government. The Legislature has met in a regular and two special legislative sessions for the specific purposes of reducing appropriations for State government operations and construction, aid to individuals, and State aid to political subdivisions since the Governor's original call for enhanced fiscal restraint in July of 2001.

Actual net General Fund tax receipts for FY 2001-02 were \$2.36 billion, \$91.4 million or 3.7% less than the prior year. FY 2001-02 General Fund spending was \$2.60 billion, \$120.8 million or 4.9% greater than the prior year. Current FY 2002-03 net General Fund tax receipts are forecasted at \$2.55 billion, a \$190.0 million or 8% increase. The growth rate for FY 2002-03 is 4.4% when adjusting the increase for the reliance on temporary tax increases for FY 2002-03 enacted during the 2002 regular legislative session. Actual tax receipts are currently running behind forecast for FY 2002-03. Current fiscal year General Fund spending is estimated at \$2.64 billion or \$40 million greater than the prior year.

State government has been confronted with a decline of approximately \$648 million in forecasted tax receipts since the initial adoption of the current biennial budget in 2001. During three successive legislative sessions about \$521 million in fund lapses, spending cuts, and tax measures were adopted to begin to address the lack of revenue to support the current level of State appropriations. The decline in actual and forecasted tax receipts has been precipitous and occurred faster than the Legislature could implement changes to establish structural balance between tax receipts and appropriations. General Fund tax receipts are forecasted to increase at an average annual rate of approximately 5.2% while requests for General Fund appropriations are expected to grow at an average annual rate of approximately 6.5%.

There are at least three financial imperatives to accomplish in order to maintain a sound financial plan for the 2003-2005 biennial budget: 1) provide at least the required minimum General Fund reserve of three percent to aid cash flow, 2) establish a positive structural balance between net General Fund receipts and General Fund appropriations, and 3) preserve the current balance and rebuild the State Cash Reserve Fund to protect against further possible adverse financial problems. In addition, our planning for the following 2005-2007 biennium should provide further increases in our General Fund balance, increase our set aside allocation for possible unforeseen financial obligations (deficits), and increase the balance in our Cash Reserve Fund. These considerations are a priority over increased General Fund appropriations.

The Governor's budget recommendations for FY 2003-04 include a net General Fund decrease of \$76.2 million, or minus 2.9% over current FY 2002-03 General Fund appropriations. The recommendations for FY 2004-05 include a net General Fund increase of \$17.4 million, or six-tenths of one percent, or almost no increase over current FY 2002-03 General Fund appropriations. This is an average overall decrease in General Fund appropriations during the 2003-2005 biennium of 2.3%.

Despite the difficulty of budgeting during a period of severe fiscal stress, the Governor remains committed to pursue these five objectives: lower taxes, less government, a strong statewide economy, safe communities, and ensuring the health, safety and success of Nebraska's children. Notwithstanding the significant challenges presented by the current economy, the Governor's budget recommendations strive to prioritize these objectives. The Governor's recommendations do not include a broadening or rate increase of our sales and income taxes. The only tax changes recommended are a continuation of the 30 cent cigarette tax increase that is scheduled to expire on September 30, 2004, and an additional increase of 20 cents effective July 1, 2003. This is consistent with the Governor's 2002 regular legislative session recommendation to increase the cigarette tax by 50 cents. The Governor continues to emphasize that

budget reductions (less government) are a first consideration and general tax increases a last resort. While the Governor's budget recommendations will require reductions across nearly all programs, services, and aid provided by State government, these recommendations reveal a continued priority for funding services that ensure safe communities and the health and safety of our children. Services to Nebraska's most vulnerable citizens in the State's 24-hour care facilities and the many public and private nursing homes across the State are also a priority in the Governor's recommendations.

General Government

Legislative Council (Agency 03)

The Governor's recommendation for the Legislative Council includes a \$1,354,506 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the Legislators' salaries and benefits for both FY 2003-04 and FY 2004-05.

97th Legislature's 2nd and 3rd Special Session Costs – The Governor's recommendation also includes reductions of \$112,667 and \$102,760 of the agency's FY 2002-03 General Fund base appropriation respectively for the 97th Legislature's 2nd and 3rd Special Session costs.

Governor (Agency 07)

The Governor's recommendation for the Governor's Office includes an \$86,278 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the required constitutional salary and benefits for both FY 2003-04 and FY 2004-05.

Lieutenant Governor (Agency 08)

The Governor's recommendation for the Lieutenant Governor includes a \$3,817 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the required constitutional salary and benefits for both FY 2003-04 and FY 2004-05.

Secretary of State (Agency 09)

The Governor's recommendation for the Secretary of State includes a \$65,522 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the required constitutional salary and benefits for both FY 2003-04 and FY 2004-05.

Records Management – The Governor proposes to increase the cash fund authority by \$417,455 in FY2003-04, and \$538,629 in FY 2004-05 for Nebraska ONLINE electronic access for public records.

Auditor of Public Accounts (Agency 10)

The Governor's recommendation for the Auditor of Public Accounts includes a \$197,996 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the required constitutional salary and benefits and consistent with the agency's submitted budget modifications plan which eliminates one Auditor-in-Charge position and five Auditor positions for both FY 2003-04 and FY 2004-05.

Accountability and Disclosure Commission (Agency 87)

The Governor's recommendation for Accountability and Disclosure Commission includes a \$42,253 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation consistent with the agency's submitted budget modifications plan, which includes a fund source change for one staff position and elimination or reduction of various agency operational expenses.

The cash fund authority is increased by \$39,218 in FY 2003-04 and \$119,368 in FY 2004-05 for Campaign Finance Limitation Cash Fund.

Agriculture, Environment and Natural Resources

Department of Agriculture (Agency 18)

The Governor's recommendations include implementation of the Department of Agriculture's budget modification proposals, which reduce the General Fund by \$491,261 in FY 2003-04 and \$491,600 in FY 2004-05. These include the elimination of contractual obligations for wildlife services and market news totaling \$49,401 in both fiscal years; the elimination of the Livestock Disease Control Laboratory totaling \$94,265 in FY 2003-04 and \$94,604 in FY 2004-05; the reduction of a position totaling \$34,176 in both fiscal years; a fund source change from General Fund to cash fund for the Residue Laboratory totaling \$44,277; the elimination of a word processing specialist position in central support totaling \$24,286 in both fiscal years; the elimination of Agricultural Statistics Program totaling \$123,366 in both fiscal years; the reduction of General Funds in the Beginning Farmer Program totaling \$45,227 in both fiscal years; and the reduction of agency travel totaling \$42,976 in both fiscal years. Recommendations also include a modification to change the fund source from a General Fund appropriation of \$33,287 in both fiscal years to cash fund authority for the Commercial Dog and Cat Operator Inspection Program.

During FY 2001-02 and FY 2002-03, the Department of Agriculture utilized cash funds in the Noxious Weed Program to reduce excess fund balances. The Governor's recommendations include \$108,283 General Funds to re-establish a portion of the General Fund base appropriation.

The Governor is supporting legislation for the Weights and Measures Program and the Bureau of Dairies and Foods Program to provide maintenance of the current funding.

Department of Natural Resources (Agency 29)

Nebraska Water Rights Program – The State of Nebraska has successfully negotiated a settlement relating to the Republican River water rights (Kansas v. Nebraska and Colorado). For the biennium 2003-05, the Governor's recommendations eliminate all litigation funding and provide for operational funding to implement the settlement. \$694,500 of General Funds have been recommended in both FY 2003-04 and FY 2004-05 which provides for Natural Resource Districts new operational costs and the Department's on-going engineering costs and four new water resource positions. The settlement also requires one-time capital outlays for both the State of Nebraska and the Natural Resource Districts. The Governor's FY 2003-04 recommendations include \$2,943,450 cash fund authority to finance these one-time costs utilizing the Environmental Trust Cash Fund, which was earmarked for transfer in Legislative Bill 2, passed by the Ninety-Seventh Legislature during the Second Special Session.

The Department of Natural Resources is continuing implementation of the Platte River water rights settlement (Nebraska v. Wyoming). The Governor's recommendations include the Department's request for an additional water resource position and continuation funding totaling \$287,875 of General Funds in both fiscal years. Additionally, the Governor's FY 2003-04 recommendations include \$300,000 cash fund authority to finance requested additional one time capital outlay. The Governor's recommendations include a transfer of \$300,000 from the Environmental Trust Cash Fund in FY 2003-04.

For the current fiscal year, FY 2002-03, the Governor is recommending the reduction of \$1.1 million in General Funds appropriated for the Republican River litigation. This reduction is a result of savings realized from the lawsuit settlement out of court. Additionally, the Governor recommends an additional \$805,503 of cash fund authority and the elimination of \$805,503 of General Fund appropriation in FY 2002-03. The Governor's recommendations include a transfer of \$805,503 from the Environmental Trust Fund in FY 2002-03.

Re-appropriations for this program in FY 2002-03 included funding provided for Consumptive Use and Ground Water Studies for the Platte River water rights settlement. The Department has indicated that this study will not be completed in FY 2002-03. The Governor recommends increasing FY 2003-04 by \$250,000 of cash fund authority and eliminating \$250,000 of General Fund appropriation in FY 2002-03. The Governor's recommendations include a transfer of \$250,000 from the Environmental Trust Fund in FY 2003-04 to finance this work.

Soil and Water Conservation Operations Program – The Governor's recommendations include \$525,000 of cash fund authority in FY 2003-04 and \$400,000 in General Fund appropriation in FY 2004-05 for the implementation of a cooperative agreement with the U.S. Fish and Wildlife Service to enhance water related environments for endangered species. The Governor's FY 2003-04 recommendations include a transfer to finance one-time costs of \$525,000 from the Environmental Trust Cash Fund in FY 2003-04.

The Governor's recommendations include the addition of two positions to enhance the current dam safety program providing \$75,000 of General Funds in both fiscal years in combination with federal funding.

Aid Programs – In FY 2002-03, \$250,000 was redirected from the Soil and Water Conservation Fund Aid Program to assist in funding the Water Policy Task Force. The Governor's recommendations include restoration of that funding. The Governor's recommendations reduce \$75,000 in General Funds from the Resource Development Fund Aid Program to assist in providing enhanced dam safety.

The Governor's recommendations for FY 2003-04 and FY 2004-05 also include implementation of the Department of Natural Resources' aid budget modification proposals reducing the Resource Development Fund Aid Program by \$450,000 in both fiscal years, the Soil and Water Conservation Fund Aid Program by \$200,000 in both fiscal years, and the Small Watersheds Flood Control Aid Program by \$24,000 in both fiscal years.

Nebraska Game and Parks Commission (Agency 33)

Administration and Operations of Parks – The Governor's recommendation for the Game and Parks Commission provides additional funding of \$35,830 in General Funds and \$329,058 cash funds totaling \$364,888 in FY 2003-04 and \$34,242 in General Funds and \$297,173 cash funds totaling \$331,415 in FY 2004-05 for a park reservation system; five temporary workers and operational expenses for the Lewis and Clark Bi-Centennial Commission events; and two full-time positions, a Facility Maintenance Specialist and an Office Clerk III and six temporary workers as additional staffing resources to aid in the administration, operations and maintenance of newly constructed or renovated enhancements within the Nebraska State Parks system at Ponca State Park, Fort Robinson State Park - Soldiers Barracks, Lewis and Clark State Recreation Area, and Two Rivers State Recreation Area.

The Governor's recommendation for the Game and Parks Commission also includes a reduction of \$908,626 which represents an amount equal to a 10% reduction of the agency's FY 2002-03 General Fund base appropriation less the elimination of one conservation officer position for \$64,911 as submitted within the agency's budget modification plan for both FY 2003-04 and FY 2004-05. These budget modifications included reductions of Game and Parks Commissions': 1) administration operating costs; 2) State Park's administration operating costs, 3) funding for State Park areas, 4) funding for State Recreation Areas, and 5) aid to the Niobrara Council.

Nebraska Environmental Trust Fund Transfer – The Governor recommends a \$4,028,450 transfer from the Environmental Trust Cash Fund for FY 2003-04 to the Department of Natural Resources for one-time costs associated with the Republican River and Platte River water rights and the cooperative agreement with U.S. Fish and Wildlife Service. Additionally, the Governor's recommendations include an \$805,503 transfer from the Environmental Trust Cash Fund for the current fiscal year, FY 2002-03, to the Department of Natural Resources for settlement costs associated with the Republican River water rights lawsuit.

The Governor's recommendations include a transfer of \$226,104 to the Department of Environmental Quality from the Environmental Trust Cash Fund for FY 2003-04 to provide remediation funding for Superfund sites.

No additional amounts greater than the \$5,060,057 provided for by the Legislature's intent as stated in Legislative Bill 2 passed during the Second Special Session of the Ninety-Seventh Legislature have been recommended for transfer from the Nebraska Environmental Trust Fund.

Nebraska Environmental Trust Program – The Governor recommends a reduction of \$5,060,057 in cash fund authority for FY 2003-04 in the Environmental Trust Program. This reduction in cash fund authority corresponds to the transfer of funds to the Department of Natural Resources and the Department of Environmental Quality to fund environmental issues.

Nebraska Brand Committee (Agency 39)

The Governor's recommendations include \$150,800 of cash fund authority reductions identified by the Nebraska Brand Committee. Cash fund authority totaling \$14,800 in FY 2003-04 and \$15,800 in FY 2004-05 is included for contractual services associated with the inspection of cattle brands.

Nebraska State Board of Agriculture (Agency 52)

State Fair – The Governor's recommendation includes funding of \$247,553 for each of FY 2003-04 and FY 2004-05 for the State Board of Agriculture's (State Fair Park) State Fair 4-H and FFA operating expenses and the State's portion of Open Class awards and premiums. The increased General

Funds are included for both FY 2003-04 and FY 2004-05, to offset the one-time federal funds appropriation from the Department of Agriculture, Program 564 – Agriculture Development, used for the 2002 Nebraska State Fair, during FY 2002-03.

Nebraska Wheat Board (Agency 56)

The Governor's recommendations include operational cash fund reductions identified by the Nebraska Wheat Board totaling \$284,116 in FY 2003-04 and \$184,116 in FY 2004-05. Cash fund authority totaling \$16,098 was included in both fiscal years for the Public Information Officer position.

Nebraska Ethanol Board (Agency 60)

The Governor's recommendations include operational cash fund reductions identified by the Nebraska Ethanol Board totaling \$65,530 in both fiscal years. An additional \$10,717 decrease in cash fund authority is included in both fiscal years to reflect projected agency salary requirements.

Department of Environmental Quality (Agency 84)

Agriculture Livestock Waste Control – During FY 2001-02 and FY 2002-03, the Department of Environmental Quality utilized cash funds transferred from the Department of Agriculture to fund the Agriculture Livestock Waste Control Program. The Governor's recommendations include \$267,330 General Funds to re-establish the General Fund base appropriation.

Superfund – The Governor's recommendations include \$196,104 cash fund authority to finance the State's share of matching funds for Superfund site cleanup. These funds are matched by federal funding for remediation of designated sites in Grand Island and Hastings. The Governor's recommendations include a transfer of \$196,104 from the Environmental Trust Cash Fund in FY 2003-04.

Re-appropriations for this program in FY 2002-03 included funding for State's share of matching funds for Superfund site cleanup in Grand Island and Hastings. The Department has indicated that \$30,000 will not be expended in FY 2002-03 due to delays from the federal government. The Governor recommends increasing the FY 2003-04 by \$30,000 of cash fund authority and eliminating \$30,000 of General Fund appropriation in FY 2002-03. The Governor's recommendations include a transfer of \$30,000 from the Environmental Trust Cash Fund in FY 2003-04.

Pollution Prevention – The Governor's recommendations include a General Fund reduction of \$71,481 identified by the Department of Environmental Quality associated with the Pollution Prevention Program in both FY 2003-04 and FY 2004-05. This recommendation is achieved by cash and federal reductions resulting in a fund mix which can replace General Funds within the Environmental Quality Program.

Asbestos – The Governor's recommendations include a General Fund reduction of \$27,600 identified by the Department of Environmental Quality associated with the Asbestos Program in both FY 2003-04 and FY 2004-05.

Low-Level Radioactive Waste Site Licensing – The State of Nebraska has been involved in litigation related to defense of the lawsuit filed by the Central Interstate Low-Level Radioactive Waste Compact Commission, US Ecology and the major compact state waste generators. The U.S. District Court rendered a decision against the State on September 30, 2002. The State of Nebraska has appealed the decision to the 8th Circuit Court of Appeals. For the biennium 2003-05, the Governor's recommendations eliminate all litigation funding with the exception of \$650,000 General Funds in FY 2003-04 for any residual appeal issues.

Nebraska Corn Development Marketing Board (Agency 88)

The Governor's recommendations include base cash fund authority as allocated between personal services and operations in FY 2002-03. No new staffing is included in the recommendations.

Nebraska Grain Sorghum Board (Agency 92)

The Governor's recommendations include operational cash fund reductions identified by the Nebraska Grain Sorghum Board totaling \$118,202 in both fiscal years. No new staffing is included in the recommendations.

Other Cash Funded Agencies

The Governor's recommendations include cash authority as requested by the following agencies:

Nebraska Oil and Gas Commission (Agency 57)

Nebraska Dairy Industry Development Board (Agency 61)

Nebraska Power Review Board (Agency 74)

Dry Bean Commission (Agency 86)

Economic Development

Nebraska Public Service Commission (Agency 14)

The Governor's recommendation for the Public Service Commission includes a \$168,323 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the required Commissioners' constitutional salaries and benefits and consistent with the agency's submitted budget modifications plan which eliminates three positions; replacement vehicles and computer replacement; and reduces travel and conference registrations expenses for both FY 2003-04 and FY 2004-05.

Nebraska Universal Service Fund – The Governor's recommendation provides \$10.0 million cash fund authority in FY 2003-04 and \$13.0 million in FY 2004-05 in additional funding as Aid to subsidize basic Local Exchange rates being held at an affordable rate in all areas of the State through the use of the Nebraska Telecommunications Universal Service Fund administered by the Nebraska Public Service Commission.

Department of Banking & Finance (Agency 19)

Financial Institutions – In response to consumer concerns, the Department proposes shifting certain Examiner positions and costs from the Securities Division to the Financial Institutions Division in order to increase the examination and investigation focus in the mortgage banking arena for FY 2003-04 and FY 2004-05.

Securities Investor Education – In FY 2002-03, the agency received a \$500,000 settlement from Merrill Lynch, Pierce, Fenner & Smith, Inc. Under the terms of the settlement agreement, \$400,000 of this amount goes to the University of Nebraska Foundation and \$100,000 will be used by the Department of Banking & Finance for investor education in the Securities area. The Governor recommends increasing the Department cash spending authority by \$50,000 in both FY 2003-04 and FY 2004-05 to utilize these additional funds.

Transfer to General Fund – The Governor recommends transfers of \$15 million in both FY 2003-04 and FY 2004-05 from the Securities Act Cash Fund (2192) to the State General Fund. These amounts were included as legislative intent in Legislative Bill 2 passed during the Second Special Session of the Ninety-Seventh Legislature. These amounts are also included in the Economic Forecasting Advisory Board Forecasts for FY 2003-04 and FY 2004-05.

Department of Insurance (Agency 22)

Carrier Examinations – With the re-domestication of two major insurance carriers to Nebraska, representing an additional \$42 billion in assets, and the Department's continuing efforts to meet state and federal examination requirements, the Department budget request for FY 2003-04 and FY 2004-05 reflects an additional \$289,398 for costs related to adding five Examiners. The Governor supports the necessary increase in staffing and cash fund appropriation to provide this increased examination capability.

Transfer to General Fund – The Governor recommends transfers of \$2 million in both FY 2003-04 and FY 2004-05 from the Insurance Cash Fund (2221) to the State General Fund.

Department of Labor (Agency 23)

The Governor's recommendation includes the Department's budget modification that would combine the activities of the Meatpacking Industry Worker Rights Coordinator (due to expire June 30, 2004) and the Non-English-Speaking subprogram within the Protection of People and Property Program. This saves approximately \$51,500 in General Funds in both FY 2003-04 and FY 2004-05. The Governor supports legislation that would extend the function of the Meatpacking Industry Worker Rights Coordinator.

Liquor Control Commission (Agency 35)

Biennial License Renewal – The Governor's recommendation includes the Commission's budget modification to reduce General Fund spending in both FY 2003-04 and FY 2004-05 by \$24,292 by shifting retail, wholesale, and miscellaneous licensing renewals from an annual to a biennial basis.

Racing Commission (Agency 36)

The Governor has included additional cash fund authority for the Racing Commission of \$30,371 in FY 2003-04 and \$42,288 in FY 2004-05 related to requested funding for laboratory expenses, legal services expense, and information technology maintenance costs.

Department of Economic Development (Agency 72)

Administration – The Governor's recommendation includes agency budget modifications that reduce administrative support staff by three positions and related operating costs. Total General Fund savings for both FY 2003-04 and FY 2004-05 will be \$134,802.

Main Street Program – The Governor recommends reducing the General Fund appropriation for State Aid to the Main Street Program by \$48,265 in both FY 2003-04 and FY 2004-05.

Affordable Housing Aid Base – Changes to the allocation of Documentary Stamp Tax money went into full effect in FY 2002-03. Revised projections for the Documentary Stamp Tax revenues allocated to the Affordable Housing Trust Fund, as well as other factors affecting cash sources available for affordable housing grants caused the Department to reduce the budget requests for State Aid cash fund authority by \$3,488,334 in FY 2003-04 and by \$2,488,334 in FY 2004-05. The Governor recommends the agency's requested levels for Affordable Housing aid.

Industry Recruitment Operations – The Governor's recommendation includes agency budget modifications to reduce operating costs and eliminate one position for FY 2003-04 and FY 2004-05. These modifications reduce General Fund appropriations for both FY 2003-04 and FY 2004-05 by \$283,638.

Rural Development Commission (Agency 95)

Commission to Pursue Non-Profit Structure – In an effort to comply with new State Rural Development Council requirements being implemented by the USDA, the Nebraska Rural Development Commission voted unanimously at its October 16, 2002 meeting to pursue a non-profit 501(c)3 structure, and to recommend the repeal of the State Statutes relative to the Nebraska Commission in the upcoming 98th Legislature – 1st Regular Session. Consequently, the Commission did not submit a budget request for State appropriations for either FY 2003-04 or FY 2004-05. The Governor recommends accepting the Commission's decisions.

Human Resources Development

Department of Education (Agency 13)

Educational Administration and Support – The Governor recommends \$582.7 million General Funds for FY 2003-04 and \$582.7 million General Funds for FY 2004-05 for the Tax Equity and Educational Opportunities Support Act (TEEOSA school aid). This is \$64.7 million, or 10% less for each fiscal year than the amount appropriated for FY 2002-03. The Governor supports legislation to change the upcoming February 1, 2003 certification of TEEOSA school aid along with other changes to the school aid distribution formula to accomplish these savings.

The Governor's recommendation for Special Education includes a reduction of \$14.6 million General Funds equal to 10% of the FY 2002-03 General Fund appropriation for both FY 2003-04 and FY 2004-05. The Governor further recommends that the Commissioner of the Department of Education, on behalf of the State, apply for a federal waiver from the federal government's maintenance of State financial support requirements for Special Education.

The Governor's recommendation includes program reductions, program eliminations, or changes in source of funding for Department services necessary to reduce FY 2003-04 and FY 2004-05 General Fund spending by an amount equal to 10% of the Department's FY 2002-03 base General Fund appropriation.

The Governor recommends: 1) a 10% reduction in adult education, 2) a 5% reduction in early childhood operations (not aid), 3) a 13% reduction in ESU core services, 4) a 15% reduction in ESU

technology infrastructure aid, and 5) an 18% reduction in high ability learners aid. These recommendations will result in General Fund savings of \$2.4 million in both FY 2003-04 and FY 2004-05.

The Governor recommends elimination of funding for the following aid and operational activities within the Department: 1) funding for economic education aid, 2) a contract with NETC for educational programming, 3) school reorganization plan matching funds, and 4) pilot technology improvement funds and special projects funds. These recommendations will result in General Fund savings of \$264,547 in both FY 2003-04 and FY 2004-05.

The Governor is also recommending the Department's budget modifications to maximize the utilization of federal and cash funds within the Department. These fund source changes will reduce General Fund support by \$359,637 for both FY 2003-04 and FY 2004-05.

The Governor will support legislation to change the fund source from the General Fund to the Teacher Certification Cash Fund for teacher education advisory committee expenditures. This funding shift will reduce General Fund support by \$30,000 for both FY 2003-04 and FY 2004-05.

Vocational Rehabilitation – The Governor's recommendation includes a \$291,098 reduction equal to 7.5% of the program's FY 2002-03 General Fund base appropriation.

Services for the Deaf and Hard of Hearing – The Governor's recommendation includes a \$218,459 reduction equal to 10% of the FY 2002-03 General Fund base appropriation. The Governor is also recommending that the direct General Fund appropriation to the Department for reimbursement of tuition expenses at the Iowa School for the Deaf be replaced with reimbursement through the Special Education Program. This will result in General Fund savings of \$235,512 in FY 2003-04 and FY 2004-05.

Center for the Education of Blind and Visually Impaired Children – The Governor is recommending an increase in funding of \$45,744 in FY 2003-04 and \$75,824 in FY 2004-05 for costs related to operating this twenty-four hour facility.

Health and Human Services-Regulation and Licensure (Agency 20)

The Governor recommends eliminating the \$46,000 annual General Fund support of the Certificate of Need program. Care facility licensing activity will become entirely funded by fees with the elimination of \$170,000 annual General Fund support for this activity. The Governor's recommendations also include an \$89,000 annual change in funding Emergency Medical Services licensing activities for First Responders and Emergency Medical Technicians-Basic from General Funds to cash funds. Transferring \$75,000 of costs associated with the bioterrorism preparedness and response from the General Fund to available federal funds in FY 2003-04 and in FY 2004-05 is also recommended by the Governor. The Governor recommends changing funding for additional costs associated with the administration of the State's drinking water program from General Funds to cash funds that are available through the Department of Environmental Quality. This action is estimated to reduce the reliance on General Funds by \$100,000 per year.

Health and Human Services-Services (Agency 25)

Tobacco Prevention and Control – The Governor recommends supporting the Tobacco Free Nebraska smoking cessation program with \$3.0 million General Funds in both FY 2003-04 and FY 2004-05.

Medicaid Eligibility Technicians – The Governor's recommendations include \$466,667 General Funds and \$466,667 federal funds in FY 2003-04 and FY 2004-05 to annualize funding included in LB2 (2002, First Special Session) to hire additional Medicaid Eligibility Technicians.

Twenty-Four Hour Care Facilities – The Governor supports merging the program appropriations for the veterans' homes, the Beatrice State Developmental Center, and the regional mental health centers to provide the department maximum flexibility in addressing budget needs at these care facilities. The Governor's recommendation includes the transfer of \$80,000 General Funds in FY 2003-04 and FY 2004-05 to the Department of Veterans' Affairs for the assumption of duties associated with the coordination of veterans' home admissions.

Health and Human Services – Finance and Support (Agency 26)

Behavioral Health, Developmental Disability, and Aging Services – The Governor supports restructuring and consolidating the behavioral health, developmental disability, and aging regions in order to save administrative costs of \$1,664,271 General Funds in FY 2003-04 and \$2,219,029 General Funds in FY 2004-05.

Developmental Disabilities – The Governor’s recommendations include funding for rate equity maintenance, resulting in developmentally disabled aid increases of \$668,717 in FY 2003-04 and \$1,350,809 in FY 2004-05. The Governor’s recommendation for Developmental Disabilities Aid also includes increased General Funds of \$1,107,586 in FY 2003-04, and \$2,237,324 in FY 2004-05 for youth transitioning costs.

Medical Student Loan Assistance – Included in the Governor’s recommendation is an additional \$300,000 in FY 2003-04 and FY 2004-05 to maintain funding of the medical student loan program at its current overall funding level. The General Funds will replace the use of cash fund balances that have been depleted.

Nebraska Health Care Cash Fund – The Governor recommends reallocation of \$5.0 million in FY 2003-04 and FY 2004-05 from the Excellence in Health Care grant program as follows: in FY 2003-04, \$1,321,222 to the Children’s Health Insurance Program (CHIP) to offset the need for General Fund support, and \$3,678,778 to the Medicaid program to reduce General Funds required, and in FY 2004-05, the entire \$5.0 million would be allocated to CHIP, along with a \$1,955,473 General Fund appropriation. The Governor’s recommendation includes the reappropriation of the available balance as of June 30, 2003 to allow for the continuation of existing multi-year public health grants awarded from the Nebraska Health Care Cash Fund.

Public Assistance

Cash Assistance – The Governor’s recommendation includes \$5.0 million General Funds in FY 2003-04 and FY 2004-05 to replace the temporary use of reserve funds. The Governor’s recommendation also includes an additional \$4,507,211 General Funds in FY 2003-04 and \$10,781,085 General Funds in FY 2004-05 to fund an estimated 12.0% increase in caseloads each fiscal year.

Child Welfare Assistance – The Governor’s recommendation includes an additional \$10,527,993 General Funds in each of FY 2003-04 and FY 2004-05 to continue funding of base increases experienced in FY 2002-03. The Governor’s recommendation also includes General Fund increases based on prices and program utilization of \$11,448,565 in FY 2003-04 and \$23,068,857 in FY 2004-05.

Child Care – The Governor recommends no increase in General Funds for the child care program in FY 2003-04 and FY 2004-05, and supports legislation that allows the necessary flexibility in the setting of rates relative to the biennial market rate survey.

State Ward Education Program – The Governor supports legislation that eliminates state ward education assistance funding. This proposal will result in General Fund savings of \$2,943,528 in FY 2003-04 and \$8,678,581 in FY 2004-05.

IV-E Adoption Finalization – The Governor recommends \$1,571,907 additional General Funds in FY 2003-04 and \$2,222,109 additional General Funds in FY 2004-05 to fund base, utilization, and price increases.

IV-E Foster Care – The Governor’s recommendation includes \$704,585 General Funds in FY 2003-04 and \$869,449 in FY 2004-05 to fund base, utilization, and price increases.

Subsidized Adoption – The Governor’s recommendation includes \$1,177,469 General Funds in FY 2003-04 and \$1,304,526 in FY 2004-05 to fund base, utilization, and price increases.

Medicaid

Overview – The FY 2002-03 General Fund Medicaid budget is \$400,248,752. The Department’s estimate of General Fund requirements in FY 2003-04 and FY 2004-05 as contained in the agency’s biennial budget request total \$436,960,018, and \$501,038,138, representing percentage increases over FY 2002-03 of 9.1% and 25.1%, respectively. These increases include the annualization of reductions made in previous current fiscal year legislative sessions, replacement of one-time use of alternative funds, and a number of assumptions with respect to anticipated prices, eligibility, and utilization. The Governor’s recommendation trims the increases from nearly \$37 million in FY 2003-04 and nearly \$101 million in FY 2004-05, to \$11.7 million and \$71.5 million, respectively. The Governor’s General Fund recommendations for the Medicaid program are \$411,962,240 in FY 2003-04, which is 2.9% over FY 2002-03, and \$471,710,638 in FY 2004-05, or 17.9% over FY 2002-03.

Replacement of One-Time Fund Use – The Governor’s recommendation includes \$8,150,000 General Funds in FY 2003-04 and in FY 2004-05 to replace the one-time use of Nursing Facility Conversion Cash Funds.

Change in Federal Match Rate – The Governor’s Medicaid recommendation includes General Fund reductions of \$3,365,945 in FY 2003-04 and \$5,048,246 in FY 2004-05 that represent savings

anticipated from the federal fund participation rate increase from 59.52% to 59.89%.

Change in Eligibility for Services – The Governor's recommendations include elimination of Medicaid presumptive eligibility for pregnant women and children, along with the elimination of Medicaid Ribicoff coverage. These eligibility changes will result in General Fund savings of \$3,178,000 in FY 2003-04, and \$3,997,000 in FY 2004-05 from the amounts requested by the agency.

Change in Services – The Governor's recommendations include the elimination of non-emergent dental coverage for Medicaid adults, reducing the scope of orthodontics coverage for Medicaid children, implementation of cost containment strategies within the prescription drug program, placing limits on the number of covered chiropractic visits and optical lenses and frames, and imposing personal limits on high needs individuals. Implementing these changes will save the General Fund an estimated \$7,458,500 in FY 2003-04 and \$7,948,000 in FY 2004-05 from the amounts requested by the agency.

Changes in Reimbursement for Services – The Governor's recommendations include average FY 2003-04 rate reductions when compared to FY 2002-03 rates of 6.3% for hospitals, and 2% for assisted living and ICF-MR's. For FY 2004-05, the Governor recommends that average rates for hospitals increase by 3.8% above FY 2003-04 rates, while FY 2004-05 assisted living and ICF-MR rates average 3.0% above FY 2003-04 rates. The Governor recommends an average 2% increase in rates for each of FY 2003-04 and FY 2004-05 for nursing facilities and practitioners. The Governor also recommends reducing the nursing facility IGT fee from the current \$10,000 to \$2,500 for FY 2003-04 and FY 2004-05.

Third Party Liability Recovery – The Governor's recommendation anticipates that more aggressive efforts in the area of third party liability collections will save an estimated \$500,000 General Funds in FY 2003-04 and FY 2004-05.

Department of Veterans' Affairs (Agency 28)

The Governor's recommendations include the transfer of \$80,000 General Funds in FY 2003-04 and FY 2004-05 from the Department of Human Services – Services to the Department of Veterans' Affairs so that the department can assume the veterans' home admissions coordination duties.

Nebraska Library Commission (Agency 34)

The Governor's recommendation includes a \$223,683 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation. The Governor's recommendation includes agency submitted budget modifications of staffing reductions in administration support, talking book production and the reference and interlibrary loan service program.

Commission on the Status of Women (Agency 38)

The Governor's recommendation includes a \$19,591 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

Nebraska Telecommunications Commission (Agency 47)

The Governor's recommendation includes a net decrease of 1.6% in General Funds for FY 2003-04 and an increase of 3.0% for FY 2004-05. The Governor's recommendation includes agency budget modifications of almost 8.4% or \$705,214 in FY 2003-04 and \$677,214 in FY 2004-05 in base General Fund support.

Included in the modifications are reductions in: television and radio technical equipment replacement, digital television base operating support, University Television production, engineering operating expenses, television and radio programming costs, radio operating expenses, and in communications department expenses. In addition, the modifications include the elimination of: a television maintenance engineering position, the KUON site manager, the KYNE site manager, a distance learning maintenance engineering position, and a secretary II position. The Governor's recommendation does not include a reduction in the length of the television broadcast day.

Increases are included in the Governor's recommendation for salaries, salary annualization, health insurance, utilities, and digital television operating cost expenses, along with other smaller increases. The Governor is recommending that the appropriation to the Commission be merged into one program in order to allow the maximum management flexibility to the Commission in managing the various funding sources. Actual expenditures would still be recorded in the multiple program and subprogram structure.

Also included is \$120,000 General Funds per fiscal year transferred from the capital construction budget to help address increasing digital television operating costs. In addition, \$139,918 of General Funds base budget funding, which is currently in the University of Nebraska's operating budget, is added to the Commission's operating budget for the current operation and maintenance of the Carpenter Building. Almost all cash fund balances and projected cash fund revenues have been used to fund operating costs.

Coordinating Commission for Postsecondary Education (Agency 48)

The Governor's recommendation includes a 9.5% reduction in General Fund support for FY 2003-04 and a 0.5% increase for FY 2004-05. Included in the Governor's recommendation is a 10% modification in operations and in the three student financial aid programs administered by the Commission.

In addition to the 10% modification totaling \$587,421 both in FY 2003-04 and FY 2004-05 in the three financial aid programs, the Governor's recommendation includes the elimination of two positions, along with a small reduction in contractual services and in office supplies in the administration program.

Increases are included in the Governor's recommendation for salaries, salary annualization, health insurance, rent, utilities and a few smaller items. The Governor's recommendation also uses all available cash balances and cash fund revenue, along with federal administrative funds for the purpose of funding operating costs.

Nebraska State Colleges (Agency 50)

For the Nebraska State Colleges, the Governor's recommendation includes General Funds of \$32.6 million for both FY 2003-04 and FY 2004-05. This is \$3.6 million, or 10% less for each fiscal year than the amount appropriated for FY 2002-03. The Nebraska State Colleges receive a lump sum appropriation and flexibility to determine specific reductions.

As with other State agencies, for the State Colleges the LB 1100 2% depreciation charges will not have to be paid in the coming biennium, however, unlike other State agencies, the funding has not been removed from the General Fund base, so that the funds may be reallocated to other expenses.

University of Nebraska (Agency 51)

For the University of Nebraska, the Governor's recommendation includes General Funds of \$371.2 million for both FY 2003-04 and FY 2004-05. This is \$41.2 million, or 10% less for each fiscal year than the amount appropriated for FY 2002-03. The University of Nebraska requires a lump sum appropriation and flexibility to determine specific reductions.

As with other State agencies, for the University the LB1100 2% depreciation charges will not have to be paid in the coming biennium. However, unlike other State agencies, the funding has not been removed from the General Fund base, so that the funds may be reallocated to other expenses. Also, the current operating and maintenance costs for the Carpenter Building have been added to the Nebraska Educational Telecommunications Commission's General Fund base operating budget for the coming biennium. The funds have not been removed from the University's General Fund base appropriation so that they may be reallocated to other expenses.

State Historical Society (Agency 54)

The Governor's recommendation includes a \$412,087 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

Mexican American Commission (Agency 68)

The Governor's recommendation includes a \$20,641 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

Nebraska Arts Council (Agency 69)

The Governor's recommendation includes a \$125,312 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

Foster Care Review Board (Agency 70)

The Governor's budget includes a General Fund base reduction consistent with the agency's submitted modification request resulting in a General Fund reduction in the employee salary and benefit base of \$108,184 in FY 2003-04 and FY 2004-05.

Commission on Indian Affairs (Agency 76)

The Governor's recommendation includes a \$18,580 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

Commission for the Blind and Visually Impaired (Agency 81)

The Governor's budget includes a 10% General Fund base reduction in the agency's budget consistent with the agency's submitted modification request, including a General Fund aid reduction of \$16,701 in FY 2003-04 and FY 2004-05. The Governor also recommends reducing General Fund employee salary and benefit base by \$24,921 each fiscal year, as well as \$12,106 in operating expenses in FY 2003-04 and FY 2004-05.

Commission for the Deaf and Hard of Hearing (Agency 82)

The Governor's recommendation includes a \$70,019 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

Nebraska Community Colleges (Agency 83)

For the Nebraska Community Colleges, the Governor's recommendation includes General Funds of \$58,642,864 for both FY 2003-04 and FY 2004-05. This represents a 10% reduction from the FY 2002-03 General Fund appropriation.

Included in the 10% reduction of \$6.5 million in General Funds are modifications which include the elimination of the grant program (Program 099) and a proportional reduction of the remainder of the 10% in each of the formula aid programs (Programs 051 and 152).

Public Finance

State Treasurer (Agency 12)

The Governor's recommendations include implementation of the Treasurer's budget modification proposals, including General Fund appropriation reductions to the State Disbursement Unit for postage, communication expense, and other operating costs. The modifications represent an annual General Fund savings of \$350,266.

Treasurer's Salary – The Governor's budget recommendations include funding of \$5,679 General Funds for both FY 2003-04 and FY 2004-05 to annualize the cost of the State Treasurer's salary as authorized by Laws 2000, LB 956, Section 4.

Treasury Management – The Governor supports legislation to finance the treasury management activities of the State Treasurer's Office from interest income of funds managed. The Governor's recommendations include General Fund appropriation reductions of \$283,418 in FY 2003-04 and \$377,890 in FY 2004-05 to reflect the savings to be realized from this legislation. This financing mechanism would be the same as is used by the Nebraska Investment Council.

Aid to Natural Resources Districts – The Governor's recommendation includes a 10% reduction equaling \$172,585 of the FY 2002-03 General Fund base appropriation for the Aid to Natural Resources Districts Program within the Treasurer's Office budget.

Aid to Cities – The Governor's recommendation includes a 10% reduction equaling \$1,314,863 of the FY 2002-03 General Fund base appropriation for the Aid to Cities Program within the Treasurer's Office budget.

Aid to Counties – The Governor's recommendation includes a 10% reduction equaling \$554,536 of the FY 2002-03 General Fund base appropriation for the Aid to Counties Program within the Treasurer's Office budget.

Department of Revenue (Agency 16)

The Governor's recommendations include implementation of the Department of Revenue's budget modification proposal to reduce staff within the Revenue Administration Program. This recommendation will result in an annual General Fund savings of \$689,270.

Aid to Counties – The Governor's budget includes a 10% reduction equaling \$450,537 of the FY 2002-03 General Fund base appropriation for the County Property Tax Relief Program within the Revenue Department budget.

Homestead Exemption Reimbursement – The Governor recommends increasing the General Fund appropriation by \$5,120,000 in FY 2003-04 and \$7,320,000 in FY 2004-05 to compensate counties for the anticipated loss of property tax revenue associated with the homestead exemption program.

Charitable Gaming Operations Fund – The excess funds in the Charitable Gaming Operations Fund have routinely been administratively lapsed to the General Fund in the past. Section 9-1,101, Nebraska Revised Statutes, has been amended recently to require that specific language authorizing the transfers be included in the biennial budget bill. Therefore, the Governor's budget includes transfers of \$250,000 in FY 2003-04 and \$200,000 in FY 2004-05 from the Charitable Gaming Operations Fund to the General Fund as provided by section 9-1,101 of the Nebraska Revised Statutes.

Tobacco Products Administration Cash Fund – The excess funds in the Tobacco Products Administration Cash Fund have routinely been lapsed administratively to the General Fund in the past. Section 77-4025, Nebraska Revised Statutes, has been amended recently to require that specific language authorizing the transfers be included in the biennial budget bill. Therefore, the Governor's recommendation includes transfers from the Tobacco Products Administration Cash Fund to the General Fund as provided by section 77-4025 of the Nebraska Revised Statutes.

Board of Educational Lands and Funds (Agency 32)

The Board of Educational Lands and Funds has elected not to submit a budget request so the Governor has included no recommendation. The State Surveyor Office is a division within the Board of Educational Lands and Funds and has submitted a funding request. The Governor's recommendation for the State Surveyor Office includes a 10% reduction of the FY 2002-03 General Fund base appropriation totaling \$39,229 which reduces staff supporting Geographic Information Systems support to counties.

Department of Administrative Services (Agency 65)

Service Financing Change – One of the agency submitted budget modifications the Governor recommends is allowing the Materiel (Purchasing), Personnel and Employee Relations Divisions within DAS to assess and bill other State agencies for the costs to perform these services for all agencies, as is currently done for functions like Communications and Information Management Services. The result would be to reduce General Fund appropriations and increase DAS revolving fund appropriations for the assessments in both FY 2003-04 and FY 2004-05 – less a 3-month General Fund appropriation reserve in DAS in FY 2003-04 for cash-flow purposes. The Governor's budget recommendations for FY 2003-04 include appropriation increases for various agencies, boards and commissions of \$1,079,353 in General Funds to accommodate the increased billings from DAS. The recommended agency appropriation increases for General Funds for FY 2004-05 would be \$1,078,864. These changes would result in a net General Fund savings to the State of \$708,767 in FY 2003-04 and a net General Fund savings of \$1,300,443 in FY 2004-05. This is the result of non-General Fund sources sharing the cost of financing these services.

Another agency submitted budget modification the Governor recommends is to finance the Task Force for Building Renewal from cash funds for FY 2003-04 and FY 2004-05. This will result in a General Fund savings of \$131,747 for both FY 2003-04 and FY 2004-05.

State and Local Finance – The Governor's recommendation includes \$43,810 General Funds for FY 2003-04 and FY 2004-05 to jointly finance the costs of improving analysis of state and local finance issues by the Budget Division and the Department of Property Assessment & Taxation.

Nebraska Information System (NIS) Assessments – The State of Nebraska will replace its current mainframe accounting and financial data processing system with a new system beginning January 2003. The DAS Accounting Division requested increased agency assessments in FY 2003-04 and FY 2004-05 for accounting costs. This addresses the costs for the new Nebraska Information System (NIS) and the debt service related to purchasing and developing that system. Since these new assessments represent increased costs to most agencies, the Governor's recommendations include additional funding for various agencies, boards, and commissions of \$592,363 of General Funds for FY 2003-04 and \$589,158 of General Funds for FY 2004-05 for these service assessments.

Workers Compensation – The DAS Risk Management Division has developed new Workers Compensation premium rates for State agencies based on the most current claims history. These new rates, requested by Risk Management, will result in higher Workers Compensation premium assessments for many State agencies. The Governor's recommendations include additional funding of \$227,616 in

General Funds in FY 2003-04 and \$921,670 in General Funds in FY 2004-05 for various affected agencies, boards, and commissions.

Tort Claims – For FY 2002-03, the Governor recommended a one-time reduction in General Fund appropriations for the DAS Tort Claims Division of \$125,000 and utilization of excess cash fund amounts to cover certain FY 2002-03 costs. The Governor recommends re-establishing this \$125,000 General Fund appropriation for both FY 2003-04 and FY 2004-05.

LB1100 Depreciation – The Governor recommends deferring the 2% Depreciation assessment on new construction projects authorized by LB1100 for both FY 2003-04 and FY 2004-05. Agencies would not be assessed the 2% depreciation charges by DAS and they would not pay them in either of these fiscal years.

Nebraska Investment Council (Agency 75)

No budget adjustments were recommended for the Nebraska Investment Council.

Nebraska Public Employee's Retirement Systems (Agency 85)

Retirement Systems Technology Project – The Nebraska Public Employee's Retirement System has requested additional cash fund authority to continue development and implementation of the PIONEER retirement information system. The Governor has recommended increases of \$1.9 million cash fund authority in FY 2003-04 and \$1.9 million cash fund authority in FY 2004-05 for increased costs related to this project, including the system support contract and master lease costs for purchase of the system software.

School Plan Benefit Mailing – The Governor's budget also includes \$143,800 cash fund authority in FY 2003-04 for the one-time costs associated with a mandated member benefit mailing in the school retirement plan.

Judges' Plan Current Unfunded Liability – The annual actuarial valuation of the defined benefit plans indicates there is a current unfunded liability in the Judges' plan of \$727,000 General Funds in FY 2003-04. The Governor has included General Funds for this program pending a determination of the appropriate Judges' contribution level and other possible changes to address financing of this plan.

Defined Benefit Plans Estimated Unfunded Liability – The Retirement System's consulting actuary has estimated the Judges' and Patrol retirement plans will experience an unfunded liability in FY 2004-05 if investment returns during the coming year do not exceed 8%. The Governor's budget includes \$2,113,539 General Funds in FY 2004-05 to reserve funds for possible use in FY 2004-05 to address the effects of lower investment returns on these retirement plans.

School Employees Retirement Plan – The Governor recommends a General Fund base increase of \$580,190 to finance the State's match under the school employees retirement plan.

Tax Equalization and Review Commission (Agency 93)

Tax Equalization and Review Commission – The Governor's recommendation includes a \$43,577 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the cost of Commissioners' salaries.

Department of Property Assessment and Taxation (Agency 96)

The Governor's recommendation includes a \$324,973 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

The Governor recommends an increase of \$900,000 General Funds beginning in FY 2003-04 to reset the General Fund base following a one-time use of excess cash funds during FY 2002-03.

End State Assumption of County Assessments – The Governor supports legislation to end State assumption of county assessment functions beginning January 1, 2005. This change will result in an annual General Fund savings of \$2,000,000 with the first \$700,000 saved during the last 6 months of FY 2004-05.

Public Safety

Supreme Court (Agency 05)

The Governor's budget recommendations provide the Supreme Court with discretion to transfer appropriations as needed among the agency's operating programs in order to provide the Court with necessary budget management flexibility.

The Governor's budget recommendations include additional funding of \$228,568 General Funds for FY 2003-04 and \$460,563 General Funds for FY 2004-05 to provide financing for salary increases for State judges.

The Governor's budget recommendations include a reduction of \$35,320 General Funds for both FY 2003-04 and FY 2004-05 for dispute resolution operations and aid costs.

The Governor supports legislation to merge the Workers' Compensation Court under the direct supervision and authority of the Supreme Court and to reallocate a portion of administrative overhead costs from General Funds to Cash funds. The Governor's budget recommendations include a reduction of \$200,000 General Funds and an increase of \$200,000 cash funds for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations include agency reductions of \$200,000 General Funds for both FY 2003-04 and FY 2004-05 to annualize the impact of deficit reduction savings.

The Governor supports legislation to eliminate misdemeanor pre-sentence investigations as submitted by the Supreme Court in its budget modifications. This workload reduction is estimated by State Probation to save the state \$1,444,324 General Funds for both FY 2003-04 and FY 2004-05.

The Governor supports probation supervision fee legislation to help finance the on-going cost of the current State Probation System. The Governor's budget recommendations include an increase of \$2,652,822 cash fund authority in FY 2003-04 and \$4,532,459 cash fund authority in FY 2004-05, and corresponding General Fund savings of \$2,652,822 in FY 2003-04 and \$4,532,459 in FY 2004-05, for no net change in total continuation program funding support. This initiative allows sufficient General Funds to be freed up to begin the implementation of community corrections programming in FY 2004-05.

The Governor supports state agency planning efforts in FY 2003-04 and proposes the implementation of community corrections programming under the auspice of State Probation at a cost of \$2,500,000 General Funds beginning in FY 2004-05.

The Governor's budget recommendations include the court's request for increased probation contractual services in the amount of \$342,660 cash fund authority in FY 2003-04 and \$349,828 cash fund authority in FY 2004-05.

The Governor's budget recommendations include a reduction of \$260,644 federal funds for both FY 2003-04 and FY 2004-05 to account for federal fund adjustments within regular probation.

The Governor proposes to increase the cash fund spending authority by \$518,692 in both FY 2003-04 and FY 2004-05 in order to annualize the impact of Laws 2002, Second Special Session, LB 2, Section 34 (Court Automation Fee Bill) and to save \$518,692 General Funds for both FY 2003-04 and FY 2004-05.

The Governor proposes a cash fund authority base reduction of \$716,800 for both FY 2003-04 and FY 2004-05 related to one-time court automation technology projects.

The Governor's budget recommendations include federal fund budget reductions of \$214,201 for both FY 2003-04 and FY 2004-05 to match the court's estimated federal fund reimbursement level for court automation costs.

The Governor's budget recommendations include \$202,330 cash fund authority for both FY 2003-04 and FY 2004-05 to phase out computer terminals and to convert to leased personal computers for court personnel connected to the court JUSTICE System.

The Governor's budget recommendations include \$250,000 cash fund authority for FY 2003-04 only to cover the one-time cost of completing the statewide court wiring project in the state's various county court offices.

Attorney General (Agency 11)

The Governor's recommendation for the Attorney General's office includes a \$375,516 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation excluding the required constitutional salary and benefits for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations include funding of \$5,872 General Funds for both FY 2003-04 and FY 2004-05 to annualize the cost of the Attorney General's salary as authorized by Laws 2000, LB 956, Section 3.

The Governor recommends the Attorney General's budget request proposal to transfer the General Fund cost of providing HHS legal services to the Attorney General's budget in lieu of billing HHS through the Department of Justice Revolving Fund. This transfer action results in a General Fund increase of \$79,500 General Funds and a decrease of \$79,500 Revolving Funds to the Attorney General's budget for both FY 2003-04 and FY 2004-05. The General Fund amount budgeted within HHS for these legal services is reduced correspondingly.

The Governor's budget recommendations include transferring \$81,480 General Funds for both FY 2003-04 and FY 2004-05 from the Crime Commission to the Attorney General's Office to support the cost of providing the Attorney General's share of state match for federal Byrne grants.

Parole Board (Agency 15)

No budget adjustments were recommended for the Parole Board.

State Fire Marshal (Agency 21)

The agency budget request includes a program fund allocation change to replace the draw down of a one-time excess cash fund balance. The Governor's budget recommendation for the Public Protection Program is increased by \$614,697 General Funds and reduced by \$614,697 cash funds for FY 2004-05 only.

The Governor's budget recommendations include a 10% reduction of the Public Protection Program's adjusted General Fund base appropriation. This amounts to a budget reduction of \$7,398 General Funds and \$54,812 cash funds for FY 2003-04 and \$62,210 General Funds for FY 2004-05.

The Governor's budget recommendations include miscellaneous data processing and printing items of \$29,781 cash funds for FY 2003-04 and \$81 cash funds for FY 2004-05.

The Governor's budget recommendations for the Training Division include General Fund budget reductions of \$49,440 for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations for the Training Division also include a reduction in cash fund spending authority of \$49,199 for both FY 2003-04 and FY 2004-05 to adjust the cash fund appropriation level consistent with estimated revenue.

The Governor's budget recommendations for the Emergency Responders Act include agency requested budget reductions of \$7,234 General Funds for both FY 2003-04 and FY 2004-05.

State Electrical Board (Agency 30)

The Governor's budget recommendations include a \$10,000 cash fund increase for both FY 2003-04 and FY 2004-05 to provide for a quarterly agency newsletter.

The Governor's budget recommendations include a \$4,000 cash fund increase for FY 2003-04 and a \$4,600 cash fund increase for FY 2004-05 to cover anticipated building rental costs.

The Governor's budget recommendations include a \$10,000 cash fund increase for both FY 2003-04 and FY 2004-05 to provide for quarterly agency meetings of the State's electrical inspectors.

The Governor's budget recommendations include miscellaneous agency requested budget reductions of \$5,300 cash funds for both FY 2003-04 and FY 2004-05.

Military Department (Agency 31)

The Governor's budget recommendations include increased funding of \$500,000 federal funds for FY 2003-04 and \$1,000,000 federal funds for FY 2004-05 for the Governor's Emergency Aid Program.

The Governor's budget recommendations include increased funding of \$124,201 federal funds for FY 2003-04 and \$163,588 federal funds for FY 2004-05 for the National and State Guard Program.

The Governor's budget recommendations include increased funding of \$459,550 federal funds for FY 2003-04 and \$532,465 federal funds for FY 2004-05 for the Emergency Management Program.

The Governor's budget recommendations include increased funding of \$79,785 cash funds for FY 2003-04 and \$90,499 cash funds for FY 2004-05 for radiological emergency programming costs.

Workers' Compensation Court (Agency 37)

The Governor's budget recommendations include additional funding of \$11,753 cash funds for FY 2003-04 and \$23,683 cash funds for FY 2004-05 to provide financing for salary increases for the Workers' Compensation Court.

The Governor's budget recommendations include a \$13,005 cash fund increase for both FY 2003-04 and FY 2004-05 to cover anticipated building rental costs.

The Governor supports legislation to merge the Workers' Compensation Court under the direct supervision and authority of the Supreme Court beginning in FY 2003-04.

Department of Correctional Services (Agency 46)

The Governor's budget recommendations include funding of \$11.6 million General Funds for FY 2003-04 and \$13.3 million General Funds for FY 2004-05 to finance projected inmate medical per diem expenses.

The Governor's budget recommendations include a salary limit of \$187,884 for FY 2003-04 and a salary limit of \$722,326 for FY 2004-05 to provide additional staffing related to the Nebraska Center for Women-York Prison expansion and construction project.

The Governor's budget recommendations include the revised agency funding request of \$52,829 General Funds for both FY 2003-04 and FY 2004-05 to cover actual LB530 building rental depreciation charges.

The Governor's budget recommendations include the revised agency funding reduction of \$10,193 General Funds for both FY 2003-04 and FY 2004-05 and the revised agency funding increase of \$16,968 revolving funds for both FY 2003-04 and FY 2004-05 to cover actual LB 1100 building depreciation charges.

The Governor supports legislation to defer the LB1100 building depreciation charges for two years. This amounts to a reduction of \$1,582,932 General Funds for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations propose defunding the County Jail Reimbursement Aid Program for savings of \$3,910,000 General Funds for both FY 2003-04 and FY 2004-05.

Nebraska State Patrol (Agency 64)

The Governor's budget recommendations include increased funding of \$111,325 General Funds for FY 2003-04 and \$176,529 General Funds for FY 2004-05 to pick up federal grant funds for the Internet Crimes Against Children Program.

The Governor's budget recommendations include increased funding of \$133,068 General Funds for FY 2003-04 and \$133,068 General Funds for FY 2004-05 to pick up federal grant funds for the COPS Universal Hiring Program.

The Governor's budget recommendations include increased funding of \$32,348 General Funds for FY 2004-05 to pick up federal grant funds for the Nebraska Law Enforcement Intelligence System (NELEIS) Grant.

The Governor's budget recommendations include increased funding of \$414,000 cash funds for FY 2003-04 and \$414,000 cash funds for FY 2004-05 for the Nebraska State Patrol to monitor traffic related to the interstate road construction program.

The Governor's budget recommendations include increased funding of \$465,022 federal funds for FY 2003-04 and \$465,022 federal funds for FY 2004-05 for a new Motor Carriers Safety Assistance Program (MCSAP) Grant.

The Governor's budget recommendations include funding reductions of \$125,000 General Funds for FY 2003-04 and \$125,000 General Funds for FY 2004-05 for a one-time helicopter repair and maintenance expense.

The Governor's budget recommendations include agency-wide funding reductions of \$225,000 General Funds for FY 2003-04 and \$225,000 General Funds for FY 2004-05.

Equal Opportunity Commission (Agency 67)

The agency budget request includes a program fund allocation change to replace the draw down of a one-time excess federal fund balance. The Governor's budget recommendation is increased by \$259,398 General Funds and reduced by \$259,398 federal funds for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations include a reduction in investigative staff in the amount of \$99,334 General Funds for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations include agency requested budget reductions of \$9,558 General Funds for both FY 2003-04 and FY 2004-05.

Commission of Industrial Relations (Agency 77)

The Governor's budget recommendations include a reduction in conference travel in the amount of \$18,700 General Funds for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations include a reduction in miscellaneous program costs in the amount of \$4,772 General Funds for both FY 2003-04 and FY 2004-05.

Nebraska Commission on Law Enforcement and Criminal Justice (Agency 78)

The Governor's budget recommendations include funding reductions of \$112,500 General Funds for FY 2003-04 and \$112,500 General Funds for FY 2004-05 related to one-time juvenile planning grant funds.

The Governor's budget recommendations include funding reductions of \$68,080 General Funds for FY 2003-04 and \$68,080 General Funds for FY 2004-05 for Santee Village law enforcement aid due to the availability of offsetting increased federal grant funds.

The Governor's budget recommendations include funding reductions of \$37,125 General Funds and \$5,000 cash funds for FY 2003-04 and \$37,125 General Funds and \$5,000 cash funds for FY 2004-05 related to one-time agency costs.

The Governor's budget recommendations include funding increases of \$229,400 General Funds for FY 2003-04 and \$229,400 General Funds for FY 2004-05 related to state building depreciation charges.

The Governor's budget recommendations include funding reductions of \$399,400 General Funds for FY 2003-04 and \$399,400 General Funds for FY 2004-05 related to the Governor's proposed two-year deferral of LB 1100 state building depreciation charges.

The Governor's budget recommendations include a reduction in cash fund spending authority of \$168,401 cash funds for FY 2003-04 and \$168,401 cash funds for FY 2004-05 due to direct vendor billing of food service costs.

The Governor's budget recommendations include an increase of \$223,031 General Funds and a decrease of \$223,031 cash funds for FY 2003-04 to address projected cash flow at the Law Enforcement Training Center.

The Governor's budget recommendations include funding increases of \$91,059 General Funds for FY 2003-04 and \$91,059 General Funds for FY 2004-05 to reinstate funding for two positions necessary to implement the open-enrollment tuition-based academy.

The Governor's budget recommendations include a reduction of \$2,598 federal funds for FY 2003-04 and \$2,598 federal funds for FY 2004-05 for minor adjustments in the highway safety grant.

The Governor's budget recommendations include a \$10,000 cash fund reduction and a \$33,200 federal fund increase for FY 2003-04 for Crime Reparations aid. The Governor's budget recommendations include a \$10,000 cash fund reduction and a \$56,800 federal fund reduction for FY 2004-05 for Crime Reparations aid. The Governor's budget recommendations include a \$200 federal fund reduction for FY 2003-04 and a \$3,200 federal fund reduction for FY 2004-05 for Crime Reparations operating costs.

The Governor's budget recommendations include a reduction of \$361,505 General Funds and an increase of \$361,505 cash funds for both FY 2003-04 and FY 2004-05 to provide a funding source change for the required state agency matching funds for the Byrne Memorial grants.

The Governor's budget recommendations include a reduction of \$38,282 General Funds and \$125,454 federal funds for both FY 2003-04 and FY 2004-05 for excess FY 03 base funds appropriated for the Byrne Memorial grant program.

The Governor's budget recommendations include an increase of \$250,000 cash funds from the Information Technology Infrastructure Fund for FY 2003-04 only to provide second year funding to complete the Criminal Justice Information System (CJIS) Federal Access Project.

The Governor's budget recommendations include an increase of \$600,000 federal funds for FY 2003-04 to provide on-going funding support during the next biennium for prioritized CJIS projects.

Commission on Public Advocacy (Agency 94)

Budget Recommendations – The Governor's budget recommendations include a reduction of \$43,500 General Funds for both FY 2003-04 and FY 2004-05 for indigent defense administrative costs directly associated with the criminal indigent defense aid program that was eliminated during the 2001-2003 biennium.

The Governor's budget recommendations for the 2003-2005 biennium include a General Fund reappropriation up to \$150,000 of the June 30, 2003 unexpended General Fund appropriation balance in Program 455, to be used for DNA testing. The Governor's budget recommendations include a base reduction of \$115,426 General Funds for both FY 2003-04 and FY 2004-05.

The Governor's budget recommendations include an increase of \$676,626 cash funds for civil legal services aid for both FY 2003-04 and FY 2004-05.

Transportation

Department of Aeronautics (Agency 17)

The Governor's recommendation includes additional cash fund authority of \$349,000 in FY 2003-04 for an Economic Impact Study to Nebraska Aviation and Airport Layout Plans for 14 airports.

Department of Motor Vehicles (Agency 24)

Motor Vehicle Insurance Identification Database System – The Governor's recommendation includes cash funds of \$1,063,750 in FY 2003-04 and \$500,000 in FY 2004-05 for the operation costs of a Motor Vehicle Insurance Identification Database System that is designed and implemented pursuant to LB 488, (2002).

Increased Digital Drivers License Card Costs – Additional cash fund authority of \$1,700,309 in FY 2003-04 and \$1,798,574 in FY 2004-05 is included for increase in digital drivers license card costs within the Digital Drivers' Licensing System that was designed and implemented pursuant to LB 574, (2001).

Automated Driver Knowledge Test Process – The Governor's recommendation also includes \$154,415 cash funds and \$524,477 federal funds for the biennium for the purchase and installation of an automated driver knowledge test process of Commercial Driver License (CDL) and Nebraska Operator's License (OL) applicants.

Emphasis continues to be placed on enhancing the efficiency and responsiveness of the Department of Motor Vehicles operations by providing enhanced driver licensing, vehicle titling and registration services to the public within a continual reasonable level of funding.

Transfer to General Fund – The Governor recommends transfers of an additional \$1 million in FY 2002-03, and \$572,962 in both FY 2003-04 and FY 2004-05 from the Motor Vehicles Cash Fund to the State General Fund.

Department of Roads (Agency 27)

The Governor's recommendation for the Department of Roads includes a \$60,072 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation consistent with the agency's submitted budget modifications plan, which includes reductions to Midwest Interstate Passenger Rail Compact, Transit Aid for Mass Transit, and Transit Aid for Intercity Bus Service.

Variable Gas Tax – The Highway Cash Fund appropriation is set at \$338 million for both FY 2003-04 and FY 2004-05. Current projections indicate that this appropriation level which comes from dedicated highway user sources will result in an average variable gas tax of 24.5 cents per gallon in each year. It is estimated that this funding level combined with federal funding will allow a highway construction program of \$346 million for both FY 2003-04 and FY 2004-05.

Nebraska Motor Vehicle Industry Licensing Board (Agency 40)

Transfer to General Fund – The Governor recommends transfers of \$100,000 in FY 2002-03, \$100,000 in FY 2003-04 and \$50,000 in FY 2004-05 from the Motor Vehicles Industry Licensing Board Cash Fund to the State General Fund.

Nebraska Railway Council (Agency 90)

The Governor's recommendation for the Nebraska Railway Council includes a \$303 reduction equal to 10% of the agency's FY 2002-03 General Fund base appropriation.

State Labor and Health Contracts

The Governor has included funding for salary and health insurance adjustments in the budget for the upcoming biennium. The funding package includes adjustments for employees covered by the Nebraska Association of Public Employees Local 61 of the American Federation of State, County, and Municipal Employees (NAPE/AFSCME), the State Code Agency Teacher's Association (SCATA), the State Law Enforcement Bargaining Council (SLEBC), and non-contract State employees. The bargaining process was not completed in time for the details of any agreement or the impact of the contracts on individual employees to be included in this publication.

The Governor's recommendation includes \$41.2 million General Funds in the 2003-2005 biennium to finance the labor cost of the NAPE/AFSCME contract, the SCATA contract, the SLEBC contract, elected and appointed officials, and non-contract employees. This amount has been recommended to cover salary and wage adjustments, benefit items such as health insurance, and the annualization of FY 2002-03 step plan costs contained in current labor contracts.

Capital Construction

Reaffirmations

The Governor's recommendation provides a total of \$43.0 million of reaffirmations (requests for previously approved projects that are primarily under contract) in FY 2003-04 and \$40.5 million of reaffirmations in FY 2004-05. Included in these total amounts are \$20.1 million General Funds in FY 2003-04 and \$18.6 million in General Funds in FY 2004-05. The remaining funds are composed of primarily cash funds (\$21.4 million in the first year of the biennium and \$20.4 million in the second), and a few revolving funds (\$1.5 million in each year of the biennium).

Reaffirmation funding recommended above will complete the following projects: the new Multi-Custody Facility at the Nebraska Correctional Center for Women (NCCW) at York, NEB*SAT Replacement Equipment, Satellite Bandwidth Replacement and Digitization, Carpenter Building Renovation, the combined Peru State College Library/Old Gym Renovation and the Wayne State College New Power Plant, State Capitol Improvements, and the State Capitol Masonry project.

With the exceptions of the Carpenter Building, DAS Task Force for Building Renewal, and the State Capitol Improvements, the reaffirmations are recommended at the requested levels. The Carpenter Building funding is reduced by \$120,000 in excess General Funds per year, which are moved to the operating budget of the Nebraska Telecommunications Commission for the purpose of helping to fund increased digital television implementation operating costs. DAS Task Force for Building Renewal reaffirmations are reduced to reflect the suspension of LB1100 depreciation assessments on new construction during FY 2003-04 and FY 2004-05. State Capitol Improvements is reduced by \$75,000 General Funds per year.

The \$5.9 million per year stream of funding for the reaffirmation of LB1100 fire/life safety and renovation projects at the University of Nebraska and the Nebraska State Colleges is recommended; the institutions are continuing the self-generated funding stream to match the LB1100 General Funds. Small cash funded reaffirmations at the University and funding for the ongoing financing of the Parking Expansion and Executive Building projects at the Department of Administrative Services are recommended.

New Capital Construction

The Governor's recommendation for new capital construction includes \$18.7 million in total funding in FY 2003-04 and \$24.4 million in FY 2004-05. Included in these totals are General Funds of \$1,145,807 in FY 2003-04 and General Funds of \$1,148,180 in FY 2004-05. The remaining funding sources are cash funds and federal funds. In addition, \$4.2 million General Funds are recommended in future fiscal years.

There are a total of three new capital construction projects that are funded in part from General Funds. The first is the new Veterans Home facility to be located in Douglas County, with a total project cost of \$15.3 million. Included in the funding is \$9.5 million in federal funds in FY 2003-04 and \$5.7 million of General Funds spread over three fiscal years starting with \$755,807 in FY 2003-04. The project has been reduced from the \$22.9 million total project cost requested. The request included significant capacity and program expansions that are not included in the Governor's recommendation.

The second and third projects are the KLNE Lexington Transmitter Replacement and the KMNE Bassett Transmitter Replacement. The former includes \$390,000 General Funds and \$260,000 in federal funds in FY 2003-04. The latter includes the same funding amounts in FY 2004-05. Both projects must proceed in order to meet the federal mandate of dual analog and digital signal transmission in the early phases of the digital television conversion.

The remainder of the recommended new construction projects for the two-year biennium includes \$7.7 million of cash funded projects at the Department of Roads, \$16.5 million of federally funded projects at the Military Department, and \$6.5 million of cash funded projects at the Game and Parks Commission.