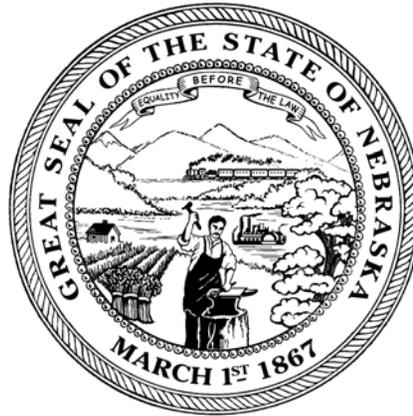


State of Nebraska

Executive Budget Briefing

2005 – 2007 Biennium



A handwritten signature in black ink, appearing to read "Mike Johanns".

Mike Johanns

Governor

January 13, 2005

Sound Financial Principles

- Structural balance – revenues exceed spending
- Adequate cash reserves
- No gimmicks
- Long-range view

Fiscal Discipline is critically important.

Growing Economy

- Finished FY 2003-04 with \$109 million excess receipts
- October board forecast – projected \$90 million excess receipts for current fiscal year 2004-05
- Current forecast of tax receipts for 2005 – 2007 biennium represents an average 4.1 percent annual growth

This is good news.

Continuing Challenges

- \$233 million projected biennial budget gap
- Low-level obligation
- Agency budget requests exceed 12% growth

Fiscally Prudent Recommendations

- No Tax Increases
- Prioritized Spending Decisions

Two Legal and Fiscal Imperatives

- ✓ Rebuild Cash Reserves
 - ✓ 3% General Fund ending balance
 - ✓ 2% Cash Reserve Fund

- ✓ Pay \$145.8 million to satisfy low-level obligation (full payment August 1, 2005)

Priorities

- ✓ Fully Finance K-12 TEEOSA School Aid
- ✓ Expand Small Business and Entrepreneurship Initiatives
- ✓ Invest in Public Safety

Fully Finance K-12 TEEOSA School Aid

- ✓ \$61 million increase in FY 2005-06, a 9.9% increase and \$64 million increase in FY 2006-07, a 9.4% increase
- ✓ Represents 40 percent of total spending increase
- ✓ Single largest increase in budget recommendations

Expand Small Business and Entrepreneurship Initiatives

- ✓ Small Business Innovation Research (SBIR) Program – Provide assistance to small businesses in applying for federal research grants (\$400,000 GF)
- ✓ Enhance, Develop and Grow Entrepreneurs (EDGE) Program – Offers intensive entrepreneurial training and cash flow analysis for entrepreneurs and small businesses (\$150,000 GF)
- ✓ Microenterprise Development Program – Expands program providing loans and technical assistance grants for small businesses (\$500,000 GF)

Expand Small Business and Entrepreneurship Initiatives (cont.)

- ✓ Venture Capital Forum – Reinstate program funding for start-up and growing businesses (\$400,000 GF)
- ✓ Local Investment Fund Tax Credit (LIFT) Program – Provides 40% state income tax credits for investment in local investment/equity funds. Credit is 60% for investment in low-income rural and urban areas (\$3 million annually beginning in FY 2008-09)
- ✓ Employment Expansion & Investment Incentive Act – Expand eligibility for incentives under LB 608 (2003) (\$2 million annual cap)

Invest in Public Safety

- ✓ Add 21 troopers (\$2.7 million GF)
- ✓ Continue 6 troopers for construction zone safety (\$900,000 CF)
- ✓ Upgrade AFIS - Automated Fingerprint Identification System (\$1.5 million CF)

Continue Commitment to 2004 Initiatives

- ✓ Develop a Mental Health System for the 21st Century
- ✓ Protect Nebraska's Children
- ✓ Ensure Stewardship of a Critical Natural Resource - Water

Develop a Mental Health System for the 21st Century

- ✓ Emergency Protective Custody – Continue expanded EPC services (\$5.0 million GF)
- ✓ Community-Based Services Transition – Provide reappropriation for development of community-based behavioral health services (up to \$6.0 million CF)
- ✓ Funding Flexibility – Continue to allow reallocation of regional center operating funds for community-based behavioral health programs in conjunction with the Behavioral Health Oversight Commission

Protect Nebraska's Children

- ✓ Children's Task Force Implementation – Provide ongoing General Fund support to protect Nebraska's children (\$9.0 million GF)
 - 120 protection and safety workers
 - Coordinators for Child Advocacy Centers
 - Aid for local prosecution of crimes against children

Ensure Stewardship of a Critical Natural Resource - Water

- ✓ Water Policy Task Force Implementation – Appropriate General Funds to replace one-time Environmental Trust funding and provide incentives for Republican River water conservation (\$6.0 million GF)
- ✓ Platte River Cooperative Agreement – Continue program previously financed from Environmental Trust grant (\$800,000 GF)

Significant General Fund Adjustments

| Description | FY06 Increase over FY05 | FY07 Increase over FY05 |
|---|------------------------------------|------------------------------------|
| TEEOSA School Aid - Fully finance TEEOSA state aid | 61,308,332 | 125,259,748 |
| Medicaid | 31,579,053 | 68,567,314 |
| University System | 17,531,033 | 34,588,271 |
| Public Assistance | 8,560,133 | 30,914,371 |
| Homestead Exemption reimbursement to counties | 4,081,900 | 6,727,900 |
| Children's Task Force implementation | 3,708,585 | 5,138,585 |
| Water Policy Task Force implementation | 3,000,000 | 3,000,000 |
| Behavioral Health Emergency Protective Custody | 2,500,000 | 2,500,000 |
| Community College Aid | 2,424,569 | 4,929,983 |
| Developmental Disability Aid | 1,998,428 | 4,015,767 |
| State College System | 1,516,313 | 2,991,622 |
| State Ward Education | 1,097,200 | 2,854,120 |
| Small Business and Entrepreneurship Initiatives | 1,053,966 | 1,053,966 |
| School Retirement Aid - 7/10 of 1% match | 1,290,328 | 1,290,328 |
| Governor's Emergency Fund | 1,000,000 | 1,000,000 |
| Medicare Part D Dual Eligibles - Eligibility Determination | 968,975 | 1,155,170 |
| State Troopers | 894,750 | 1,789,500 |

Major Areas of Spending Growth

| | FY2004-05 Appropriations | FY2005-06 Rec \$ Chg | FY2006-07 Rec \$ Chg | FY2005-06 Recommendation | FY2006-07 Recommendation | FY2005-06 Rec % Chg | FY2006-07 Rec % Chg |
|--|-----------------------------|-------------------------|-------------------------|-----------------------------|-----------------------------|------------------------|------------------------|
|--|-----------------------------|-------------------------|-------------------------|-----------------------------|-----------------------------|------------------------|------------------------|

Major Increases

| | | | | | | | |
|-------------------------------|---------------|--------------------|--------------------|---------------|---------------|------|------|
| K-12 Education | 810,303,767 | 62,598,660 | 126,550,076 | 872,902,427 | 936,853,843 | 7.7% | 7.3% |
| --Percent of State Total | 29.4% | 40.7% | 38.5% | 30.0% | 30.3% | | |
| Human Services | 975,046,118 | 53,542,781 | 127,457,716 | 1,028,588,899 | 1,102,503,834 | 5.5% | 7.2% |
| --Percent of State Total | 35.4% | 34.8% | 38.7% | 35.3% | 35.7% | | |
| Subtotal | 1,785,349,885 | 116,141,441 | 254,007,792 | 1,901,491,326 | 2,039,357,677 | 6.5% | 7.3% |
| Percent of State Total | 64.7% | 75.5% | 77.2% | 65.3% | 66.1% | | |
| Higher Education | 512,221,921 | 21,888,039 | 43,163,256 | 534,109,960 | 555,385,177 | 4.3% | 4.0% |
| --Percent of State Total | 18.6% | 14.2% | 13.1% | 18.3% | 18.0% | | |
| Public Safety | 188,202,839 | 6,739,542 | 14,104,061 | 194,942,381 | 202,306,900 | 3.6% | 3.8% |
| --Percent of State Total | 6.8% | 4.4% | 4.3% | 6.7% | 6.6% | | |
| Other | 272,308,079 | 9,107,467 | 17,783,768 | 281,415,546 | 290,091,847 | 3.3% | 3.1% |
| --Percent of State Total | 9.9% | 5.9% | 5.4% | 9.7% | 9.4% | | |
| State Total | 2,758,082,724 | 153,876,489 | 329,058,877 | 2,911,959,213 | 3,087,141,601 | 5.6% | 6.0% |

GENERAL FUND FINANCIAL STATUS

| | FY2004-05 | Est. for Next Biennium | | Following Biennium | |
|---|--------------------|------------------------|--------------------|---------------------|---------------------|
| | | FY2005-06 | FY2006-07 | FY2007-08 | FY2008-09 |
| <u>Beginning Balance</u> | | | | | |
| Beginning Cash Balance | \$176,438,014 | \$126,834,728 | \$158,842,875 | \$182,633,297 | \$195,292,533 |
| Cash Reserve Fund transfer-Automatic | (108,727,007) | (90,520,885) | | | |
| Cash Reserve Fund transfer-Cash Flow | | | | | |
| Carryover obligations from FY2003-04 | (95,953,260) | | | | |
| Reduce FY04 carryover obligations (2005 Session) | 16,758,165 | | | | |
| Allocation for potential deficits | | (5,000,000) | (5,000,000) | (5,000,000) | (5,000,000) |
| Unobligated Beginning Balance | (11,484,088) | 31,313,843 | 153,842,875 | 177,633,297 | 190,292,533 |
| <u>Receipts</u> | | | | | |
| Net Receipts (Certified; NEFAB; LFO Hist. Avg.) | 2,775,479,115 | 2,962,000,000 | 3,071,000,000 | 3,279,000,000 | 3,485,000,000 |
| Additional Receipts (NEFAB, Oct.) | 90,520,885 | | | | |
| General Fund transfers-out | (1,640,000) | (1,640,000) | (1,640,000) | (3,140,000) | (140,000) |
| General Fund transfers-in | In Receipts | | | | |
| Cash Reserve Fund transfers-current | 26,000,000 | | | (5,727,707) | |
| General Fund transfers-new | | 27,585,378 | 26,500,000 | | |
| Cash Reserve Fund transfers (2005 Session) | | 52,000,000 | 21,000,000 | (10,000,000) | (10,000,000) |
| Revenue Legislation | | | | | (3,000,000) |
| General Fund Net Receipts | 2,890,360,000 | 3,039,945,378 | 3,116,860,000 | 3,260,132,293 | 3,471,860,000 |
| <u>Appropriations</u> | | | | | |
| Appropriations per 2004 Session | 2,758,082,724 | 2,758,082,724 | 2,758,082,724 | 2,758,082,724 | 2,758,082,724 |
| Deficit Recommendations | (6,640,499) | | | | |
| Claims Bill | 598,959 | | | | |
| Budget Recommendations | | 153,876,489 | 329,058,877 | 329,058,877 | 329,058,877 |
| Low-Level Settlement Payment | | Cash Fund | | | |
| Allocation for A-Bills | | 457,133 | 927,977 | 927,977 | 927,977 |
| Available Growth - following biennium | | | | 154,403,479 | 316,527,132 |
| TEEOSA - Needs adj./95 cent LER sunset | | | | | 0 |
| General Fund Appropriations | 2,752,041,184 | 2,912,416,346 | 3,088,069,578 | 3,242,473,057 | 3,404,596,710 |
| <u>Ending Balance</u> | | | | | |
| Dollar ending balance | 126,834,728 | 158,842,875 | 182,633,297 | 195,292,533 | 257,555,823 |
| Biennial Reserve (%) | 2.33% | -- | 3.04% | -- | 3.87% |
| Variance from Minimum Reserve | (34,307,974) | -- | 2,251,184 | -- | 56,158,962 |
| Minimum Reserve @ 3% | 161,142,702 | -- | 180,382,113 | -- | 201,396,862 |
| Annual Spending Growth w/out Deficits | | 5.6% | 6.0% | 5.0% | 5.0% |
| Two Year Average Growth | | -- | 5.8% | -- | 5.0% |

Cash Reserve Fund Status

| Cash Reserve Fund Status | Current FY2004-05 | Next Biennium FY2005-06 FY2006-07 | | Following Biennium FY2007-08 FY2008-09 | |
|---|----------------------|---|---------------------|--|-------------------|
| Beginning Balance | 87,028,337 | 177,167,720 | 67,447,913 | 44,663,497 | 60,391,204 |
| Transfer Amounts Above Forecasts | 108,727,007 | 90,520,885 | | | |
| To/From Gen Fund per Current Law | (26,000,000) | | | 5,727,707 | |
| Cigarette tax/stamps, MV sales tax | 8,170,556 | | | | |
| To NCCF for Eastern NE Vets Home | (758,180) | (2,429,304) | (1,784,416) | | |
| To/From Gen Fund (2005 Session) | | (52,000,000) | (21,000,000) | 10,000,000 | 10,000,000 |
| To Low-Level Settlement Payment Fund | | (145,811,388) | | | |
| Ending Balance | 177,167,720 | 67,447,913 | 44,663,497 | 60,391,204 | 70,391,204 |

Sound Financial Principles

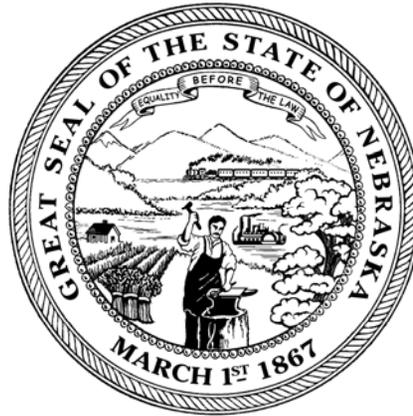
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