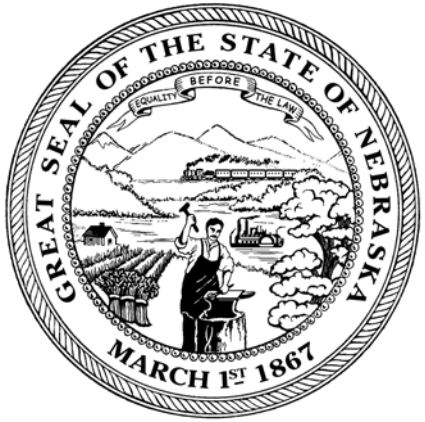
State of Nebraska

Executive Budget Briefing

2007 – 2009 Biennium



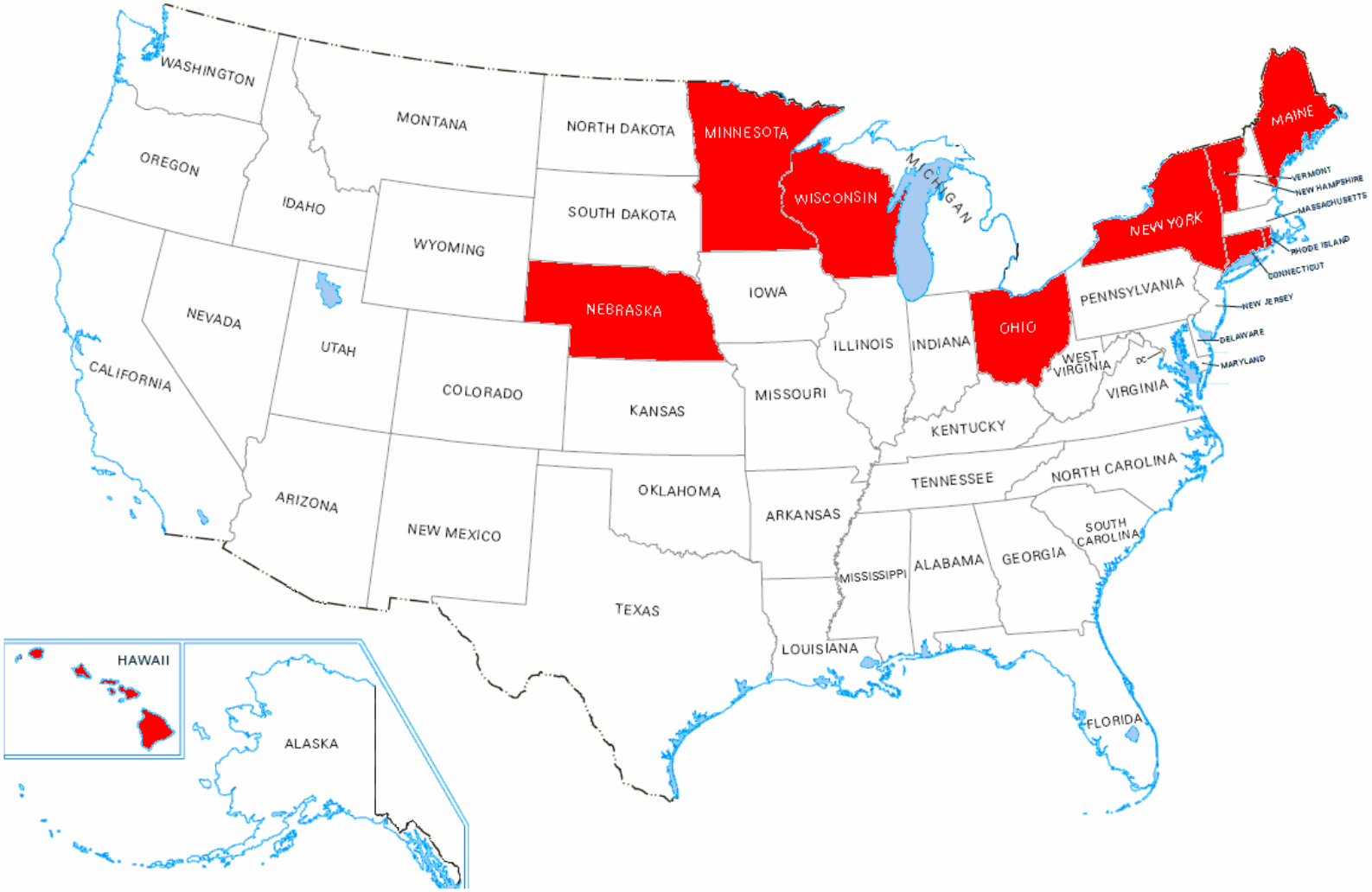
Dave Heineman

Governor

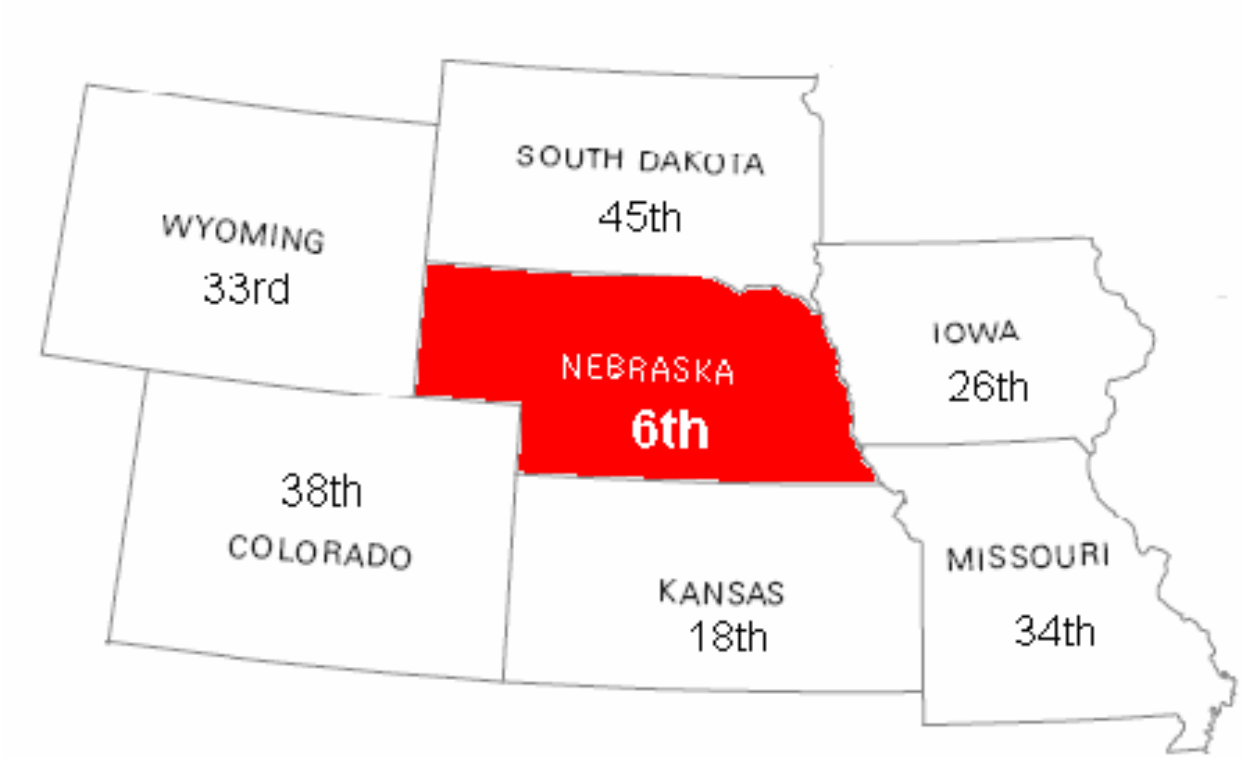
January 11, 2007

100TH LEGISLATURE, FIRST SESSION

Nebraska is one of the top ten highest taxed states in the nation



Nebraska is a high tax state…



…at a competitive disadvantage with our neighboring states

Jobs for our young people is the ultimate goal

How can the State help achieve this goal?

- Lower Taxes

  Targeted to middle-income families

- Control Spending

  Two year average increase – 3.8 percent

Tax Relief Legislation

- ✓ Income Tax Reform
- ✓ Estate Tax Repeal
- ✓ Construction Labor Sales Tax Repeal

Income Tax Reform

- Reduce income tax rates
- Reduce number of tax brackets from four to three
- Widen income tax brackets
- Eliminate marriage penalty
- Index tax brackets beginning in 2011

Income Tax Reform

Current Brackets

Brackets	Married, Filing Joint	Single	Marginal Tax Rate
1	$0 - $4,000	$0 - $2,400	2.56%
2	$4,000 - $31,000	$2,400 - $17,500	3.57%
3	$31,000 - $50,000	$17,500 - $27,000	5.12%
4	Over $50,000	Over $27,000	6.84%

Proposed Brackets

Brackets	Married, Filing Joint	Single	Marginal Tax Rate
1	$0 - $32,000	$0 - $16,000	3.07%
2	$32,000 - $90,000	$16,000 - $45,000	5.12%
3	Over $90,000	Over $45,000	**** See Below**

Proposed Top Marginal Tax Rate **

Tax Year	Top Tax Rate
2007	6.84%
2008	6.60%
2009	6.25%
2010	5.95%

Additional Tax Relief Components

- ☆ Estate Tax Repeal (eff. Jan. 1, 2007)
- ☆ Construction Labor Sales Tax Repeal (eff. Oct. 1, 2007)

Governor's Tax Relief Proposal

	FY 2007-08	FY 2008-09	Biennium Total
Income Tax Reform	226,147,000	205,704,000	431,851,000
Estate Tax Repeal	9,720,000	20,669,000	30,389,000
Construction Labor Sales Tax Repeal	5,667,000	8,670,000	14,337,000
Total	**241,534,000**	**235,043,000**	**476,577,000**

Aid to Local Governments/ Property Tax Assistance

- **58 percent** of the General Funds **added** during the biennium are dedicated for Aid to Local Governments

  - Additional funding of $170.9 million for TEEOSA during the 2007-2009 biennium; 49 percent of biennium total

  - Additional funding of $15.8 million for Special Education during the biennium; 5 percent of biennium total

Major Increases - Aid to Local Government
General Fund Only

Description	FY 2006-07	FY 2007-08 $ Chg	FY 2008-09 $ Chg	Biennium Total $ Chg	FY 2007-08 % Chg.	FY 2008-09 % Chg	FY 2007-08	FY 2008-09
TEEOSA State Aid	701,346,228	40,166,040	130,741,429	**170,907,469**	**5.7%**	**12.2%**	741,512,268	832,087,657
Homestead Exemption	56,473,000	13,583,960	19,647,104	**33,231,064**	**24.1%**	**8.7%**	70,056,960	76,120,104
Special Education	174,280,179	5,228,405	10,613,663	**15,842,068**	**3.0%**	**3.0%**	179,508,584	184,893,842
Aid to Community Colleges	68,566,476	869,985	2,438,160	**3,308,145**	**1.3%**	**2.3%**	69,436,461	71,004,636
State Ward Education	18,826,120	773,045	1,577,012	**2,350,057**	**4.1%**	**4.1%**	19,599,165	20,403,132

Property Tax Assistance

- $2.4 billion total investment in General Fund aid to local governments during the 2007-2009 biennium

Largest Investment Ever in Property Tax Relief

Property Tax Relief is a tax shift; not a tax cut

State efforts to fund property tax relief increase state spending

In order to slow the growth in property taxes…

Local Governments Need to Restrain Spending

Other Budget and Policy Proposals

- ✓ Finance ethanol incentives
- ✓ Address water challenges
- ✓ Increase college attendance
- ✓ Fund Public Safety Communication System

Finance Immediate Needs of Ethanol Incentive Program

Ethanol Production Incentive Fund

	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	Total
Beginning Cash Balance	**6,415,089**	**7,383,627**	**12,547,752**	**11,637**	**(12,750,526)**	**(25,115,526)**	
Total Estimated Expenditures	21,667,500	28,125,000	28,125,000	28,125,000	27,365,000	22,000,000	155,407,500
Estimated Revenues	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**FY 2010-11**	**FY 2011-12**	**Totals**
Proposed General Fund Transfer		**15,500,000**					**15,500,000**
Proposed checkoff extension					**9,800,000**	**11,000,000**	**20,800,000**
Checkoff - current law	11,500,000	10,000,000	10,500,000	11,000,000	1,200,000		44,200,000
General Fund Transfers-current law	9,000,000	5,500,000	2,500,000	2,500,000	2,500,000	2,500,000	24,500,000
Petroleum Release Fund	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	9,000,000
Off-Road Refund	450,000	575,000	725,000	362,500			2,112,500
Interest on Invested Funds	186,038	214,125	363,885	337	0	0	764,385
Total	22,636,038	33,289,125	15,588,885	15,362,837	15,000,000	15,000,000	116,876,885
Year End Cash Balance	**7,383,627**	**12,547,752**	**11,637**	**(12,750,526)**	**(25,115,526)**	**(32,115,526)**	

Shared Responsibility for Nebraska's Water Challenges

- Propose creation of Water Resources Cash Fund
- Address implementation of Platte River Cooperative Agreement, Republican River Compact and LB 962
- 12 Year Plan - $128 million

Shared Responsibility for Nebraska's Water Challenges

Water Resources Cash Fund

Source	Annual Amount FY 2007-08 through FY 2011-12	Annual Amount FY 2012-13 through FY 2018-19	Total
Funding			
Proposed General Fund Transfers	2,700,000	2,700,000	32,400,000
Nebraska Environmental Trust Grants	300,000	300,000	3,600,000
Federal Revenue (est.)	1,000,000	1,000,000	12,000,000
Corn/Grain Sorghum (EPIC) Revenues	0	6,285,714	43,999,998
Regulation			
Monetary Value (est.)	3,000,000	3,000,000	36,000,000
Total	**7,000,000**	**13,285,719**	**128,108,806**

Increase the College Attendance Rate

- ✓ Increase need-based scholarship aid $1 million each year
- ✓ Increase the annual college savings plan deduction maximum to $10,000 ($5,000 for married filing separate)

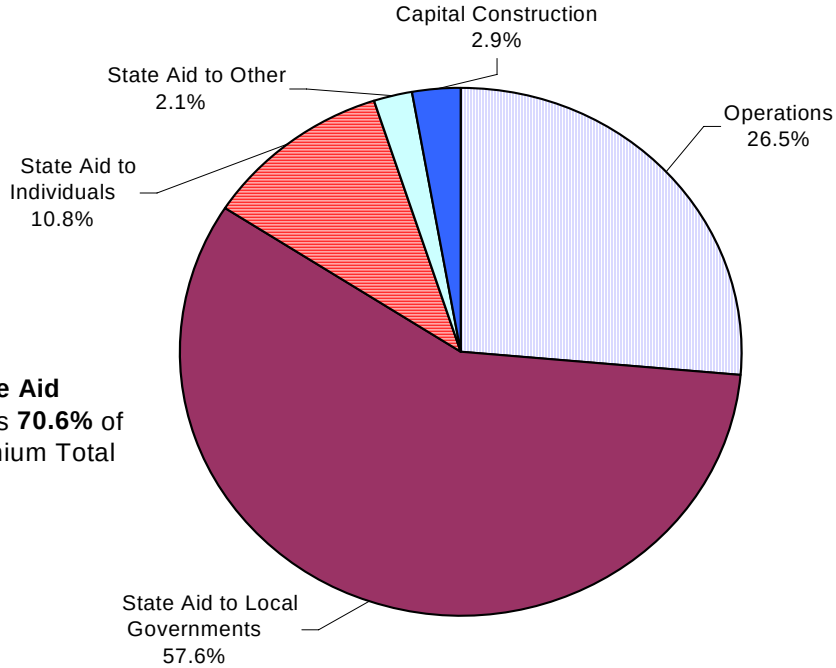
Create the Nebraska Public Safety Communication System

- ✓ Provide interoperable communication system with State and Local agencies by FY 2009-10
- ✓ Total General Fund investment over the 2007-2009 biennium of about $5 million
- ✓ Allocate cigarette tax funding made available by law to reduce on-going General Fund cost

Budget Adjustments: Major Categories, General Fund Only

	FY 2007-08 over FY 2006-07	% Chg.	FY 2008-09 over FY 2007-08	% Chg.	FY 2008-09 over FY 2006-07	% of Biennium Total
Operations	**28,518,569**	**2.5%**	**35,540,760**	**3.1%**	**64,059,329**	**26.5%**
State Aid	**60,626,081**	**3.0%**	**125,493,813**	**6.0%**	**186,119,894**	**70.6%**
State Aid to Local Governments	48,198,117	4.4%	105,039,994	9.2%	153,238,111	57.6%
State Aid to Individuals	9,527,807	1.2%	18,765,011	2.3%	28,292,818	10.8%
State Aid to Other	2,900,157	2.3%	1,688,808	1.3%	4,588,965	2.1%
Capital Construction	**11,688,405**	**36.7%**	**-13,258,533**	**-30.4%**	**-1,570,128**	**2.9%**
Grand Total	**100,833,055**	**3.2%**	**147,776,040**	**4.5%**	**248,609,095**	**100.0%**

% of Biennium Total
General Fund Only



State Aid
represents **70.6%** of
the Biennium Total

General Fund Budget: Major Categories

Major Categories	Current FY 2006-07	Recommended FY 2007-08	Recommended FY 2008-09
Operations	1,118,919,644	1,147,438,213	1,182,978,973
State Aid to Local Governments	1,097,943,634	1,146,141,751	1,251,181,745
State Aid to Individuals	804,060,190	813,587,997	832,353,008
State Aid to Others	128,048,328	130,948,485	132,637,293
Capital Construction	31,878,981	43,567,386	30,308,853
Total Appropriation	**3,180,850,777**	**3,281,683,832**	**3,429,459,872**

Annual Dollar Change	Current FY 2006-07	Recommended FY 2007-08	Recommended FY 2008-09
Operations	55,095,379	28,518,569	35,540,760
State Aid to Local Governments	51,116,524	48,198,117	105,039,994
State Aid to Individuals	79,305,308	9,527,807	18,765,011
State Aid to Others	11,963,763	2,900,157	1,688,808
Capital Construction	8,528,500	11,688,405	(13,258,533)
Total Dollar Increase	**206,009,474**	**100,833,055**	**147,776,040**

Annual Percent Change	Current FY 2006-07	Recommended FY 2007-08	Recommended FY 2008-09
Operations	5.2%	2.5%	3.1%
State Aid to Local Governments	4.9%	4.4%	9.2%
State Aid to Individuals	10.9%	1.2%	2.3%
State Aid to Others	10.3%	2.3%	1.3%
Capital Construction	36.5%	36.7%	-30.4%
Total Percent Change	**6.9%**	**3.2%**	**4.5%**

% of Total Appropriation	Current FY 2006-07	Recommended FY 2007-08	Recommended FY 2008-09
Operations	35.2%	35.0%	34.5%
State Aid to Local Governments	34.5%	34.9%	36.5%
State Aid to Individuals	25.3%	24.8%	24.3%
State Aid to Others	4.0%	4.0%	3.9%
Capital Construction	1.0%	1.3%	0.9%
Total*	**100.0%**	**100.0%**	**100.0%**

* Sum of individual categories may not equal exactly 100.0% due to rounding.

Top 10 Budget Adjustments
General Fund Only

Description	FY 2006-07	FY 2007-08 $ Chg	FY 2008-09 $ Chg	Biennium Total $ Chg	FY 2007-08 % Chg.	FY 2008-09 % Chg	FY 2007-08	FY 2008-09	% of Biennium Total	Cumulative % of Total
TEEOSA State Aid	701,346,228	40,166,040	130,741,429	**170,907,469**	**5.7%**	**12.2%**	741,512,268	832,087,657	48.9%	48.9%
Medicaid	558,888,505	14,176,115	26,181,016	**40,357,131**	**2.5%**	**2.1%**	573,064,620	585,069,521	11.5%	60.5%
Homestead Exemption	56,473,000	13,583,960	19,647,104	**33,231,064**	**24.1%**	**8.7%**	70,056,960	76,120,104	9.5%	70.0%
HHS-Services Operations	175,360,766	6,865,715	21,451,111	**28,316,826**	**3.9%**	**8.0%**	182,226,481	196,811,877	8.1%	78.1%
University of Nebraska	454,486,041	5,093,247	15,398,939	**20,492,186**	**1.1%**	**2.2%**	459,579,288	469,884,980	5.9%	83.9%
Special Education	174,280,179	5,228,405	10,613,663	**15,842,068**	**3.0%**	**3.0%**	179,508,584	184,893,842	4.5%	88.5%
Correctional Services Oper.	136,796,113	5,582,118	9,334,096	**14,916,214**	**4.1%**	**2.6%**	142,378,231	146,130,209	4.3%	92.7%
Capital Construction	31,878,981	11,688,405	(1,570,128)	**10,118,277**	**36.7%**	**-30.4%**	43,567,386	30,308,853	2.9%	95.6%
State Patrol Operations	48,010,563	1,550,454	4,574,189	**6,124,643**	**3.2%**	**6.1%**	49,561,017	52,584,752	1.8%	97.4%
HHS-Finance Operations	36,127,461	1,573,329	3,253,049	**4,826,378**	**4.4%**	**4.5%**	37,700,790	39,380,510	1.4%	98.8%

Other Budget Adjustments, Code Agency Operations
General Fund Only

Description	FY 2006-07	FY 2007-08 $ Chg	FY 2008-09 $ Chg	Biennium Total $ Chg	FY 2007-08 % Chg.	FY 2008-09 % Chg	FY 2007-08	FY 2008-09
HHS-Services Operations	175,360,766	6,865,715	21,451,111	**28,316,826**	**3.9%**	**8.0%**	182,226,481	196,811,877
Correctional Services Oper.	136,796,113	5,582,118	9,334,096	**14,916,214**	**4.1%**	**2.6%**	142,378,231	146,130,209
State Patrol Operations	48,010,563	1,550,454	4,574,189	**6,124,643**	**3.2%**	**6.1%**	49,561,017	52,584,752
HHS-Finance Operations	36,127,461	1,573,329	3,253,049	**4,826,378**	**4.4%**	**4.5%**	37,700,790	39,380,510
Revenue Operations	22,567,557	667,230	1,191,743	**1,858,973**	**3.0%**	**2.3%**	23,234,787	23,759,300
Crime Comm. Operations	8,635,267	263,929	437,247	**701,176**	**3.1%**	**1.9%**	8,899,196	9,072,514
Natural Resources Operations	8,665,608	199,392	372,185	**571,577**	**2.3%**	**1.9%**	8,865,000	9,037,793
Agriculture Operations	5,913,998	143,048	294,290	**437,338**	**2.4%**	**2.5%**	6,057,046	6,208,288
Economic Development Oper.	4,178,598	89,273	184,548	**273,821**	**2.1%**	**2.2%**	4,267,871	4,363,146
Parole Board Operations	757,130	16,447	35,275	**51,722**	**2.2%**	**2.4%**	773,577	792,405

Budget Summary

- Lower Taxes – Income Tax Reform, Repeal Estate Tax and Construction Labor Sales Tax

- Control Spending – 3.8 percent average annual increase

- Maintain Cash Reserve Fund balance above $391 million next biennium and above $400 million at the end of FY 2010-11

General Fund Financial Status

General Fund Financial Status	Current FY2006-07	Biennial Budget FY2007-08	Biennial Budget FY2008-09	Following Biennium FY2009-10	Following Biennium FY2010-11
Beginning Balance					
Beginning Cash Balance	$565,963,976	$307,206,143	$229,278,078	$219,097,711	$229,355,979
Cash Reserve Fund transfer-Automatic	(259,929,524)	(99,105,000)			
Carryover obligations from FY2005-06	(155,726,041)				
Allocation for potential deficits		(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Unobligated Beginning Balance	150,308,411	203,101,143	224,278,078	214,097,711	224,355,979
Receipts					
Net Receipts (Certified; NEFAB; LFO Hist. Avg.)	3,316,000,000	3,415,000,000	3,586,000,000	3,856,000,000	4,124,000,000
General Fund transfers out-current	(9,140,000)	(5,640,000)	(2,640,000)	(2,640,000)	(2,640,000)
General Fund transfers in-current	In Receipts				
Cash Reserve Fund transfers-current	15,674,107	60,177,767	54,990,505		
Income Tax Reform		(226,147,000)	(205,704,000)	(245,354,000)	(279,380,000)
Estate Tax repeal		(9,720,000)	(20,669,000)	(21,336,000)	(22,001,000)
Construction Labor Sales Tax repeal		(5,667,000)	(8,670,000)	(8,840,000)	(9,000,000)
College Savings Plan Deduction increase		(1,283,000)	(1,368,000)	(1,453,000)	(1,541,000)
Business Child Care Credit repeal		1,200,000	1,900,000	2,400,000	2,900,000
General Fund transfers out-new		(18,060,000)	(2,560,000)	(2,560,000)	(2,560,000)
General Fund transfers in-new		23,000,000	23,000,000		
Cash Reserve Fund transfers-new		75,000,000			
General Fund Net Revenues	3,322,534,107	3,307,860,767	3,424,279,505	3,576,217,000	3,809,778,000
Appropriations					
Appropriations per 2006 Session	3,180,850,777	3,180,850,777	3,180,850,777	3,180,850,777	3,180,850,777
Budget Recommendations		105,572,864	256,315,002	389,195,759	525,736,797
Governor Legislation		(4,510,799)	(6,641,182)	(7,161,182)	(7,161,182)
Agency Legislation		(229,010)	(1,064,725)	(1,926,623)	(1,926,623)
Deficit Recommendations	(16,522,219)				
Claims Bill	1,307,817				
General Fund Appropriations	3,165,636,375	3,281,683,832	3,429,459,872	3,560,958,731	3,697,499,769
Ending Balance					
Dollar ending balance	307,206,143	229,278,078	219,097,711	229,355,979	336,634,210
Minimum Biennial Reserve Requirement	190,611,528	--	202,142,954	--	221,507,555
Variance from Minimum Reserve	116,594,615	--	16,954,757	--	115,126,656
Biennial Reserve (%)	4.93%	--	3.26%	--	4.63%
Annual Spending Increase (excluding deficits)	--	3.2%	4.5%	3.8%	3.8%
Two Year Average Increase	--	--	**3.8%**	--	3.8%
Annual Forecast Increase	--	3.0%	5.0%	7.5%	7.0%
Two Year Average Increase	--	--	**4.0%**	--	7.2%

Cash Reserve Fund Status

Cash Reserve Fund Status	Current FY2006-07	Biennial Budget FY2007-08	Biennial Budget FY2008-09	Following Biennium FY2009-10	Following Biennium FY2010-11
Beginning Balance	273,616,789	504,087,790	451,015,023	391,024,518	391,024,518
Transfer Amounts Above Forecasts	259,929,524	99,105,000			
To/From General Fund per current law	(15,674,107)	(60,177,767)	(54,990,505)		
To NCCF for Eastern NE Vets Home per current law	(1,784,416)				
To NCCF for Capitol Environs Acquisition		(12,000,000)			
To Nebraska Job Training Fund		(5,000,000)	(5,000,000)		
To/From State Employees Insurance Fund	(12,000,000)				12,000,000
To General Fund (2007 Session)		(75,000,000)			
Ending Balance	504,087,790	451,015,023	391,024,518	391,024,518	403,024,518

Priorities

- Job Growth
- Lower Taxes
- Control Spending
- Property Tax Relief

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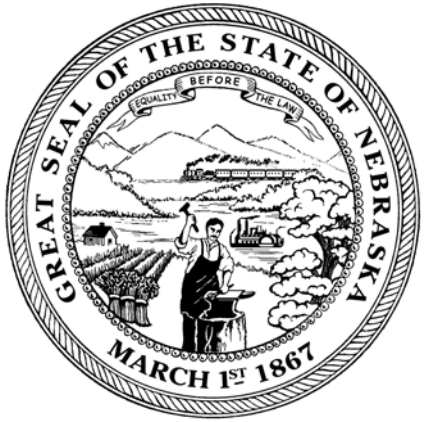

Dave Heineman

Governor

January 11, 2007

100TH LEGISLATURE, FIRST SESSION