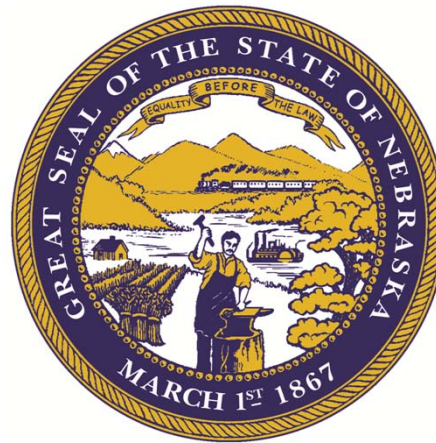

State of Nebraska
Executive Budget Briefing

2011 – 2013 Biennium



Dave Heineman
Governor

January 13, 2011



“I’m optimistic about our future.”

– Gov. Dave Heineman

- Nebraska is in better shape than most of America
- 3rd lowest unemployment rate
- Omaha – #2 Best Cities for Business (MarketWatch)
- Lincoln – #5 Best Places for Business and Careers (Forbes)
- Nation’s #2 ethanol producer
- Top 10 Best Places for a Job – Madison, Platte & Sarpy Counties (CNN Money)

In 2006, Nebraska was one of the Top Ten highest taxed states in the nation (45 of 50)





In 2011, Nebraska is now ranked 29th

- Progress, but more work to do.
- From 2006 to 2011 – Nebraska is the most improved state except for Kentucky.
 - **Nebraska – 45 to 29**
 - Kentucky – 38 to 19

How did we do it?

- 2007 **largest tax relief package** in Nebraska history
 - repealed estate tax
 - eliminated marriage penalty in the income tax system
 - repealed sales tax on construction labor
 - lowered income tax
- **Since 2008, three-fourths of states have raised taxes – Nebraska has not.**



The Nebraska Advantage

- Modernized our economic incentive program – incredibly successful.
- 245 companies have decided to expand or locate in Nebraska.
- They will invest \$5.5 billion & create 18,500 new jobs.

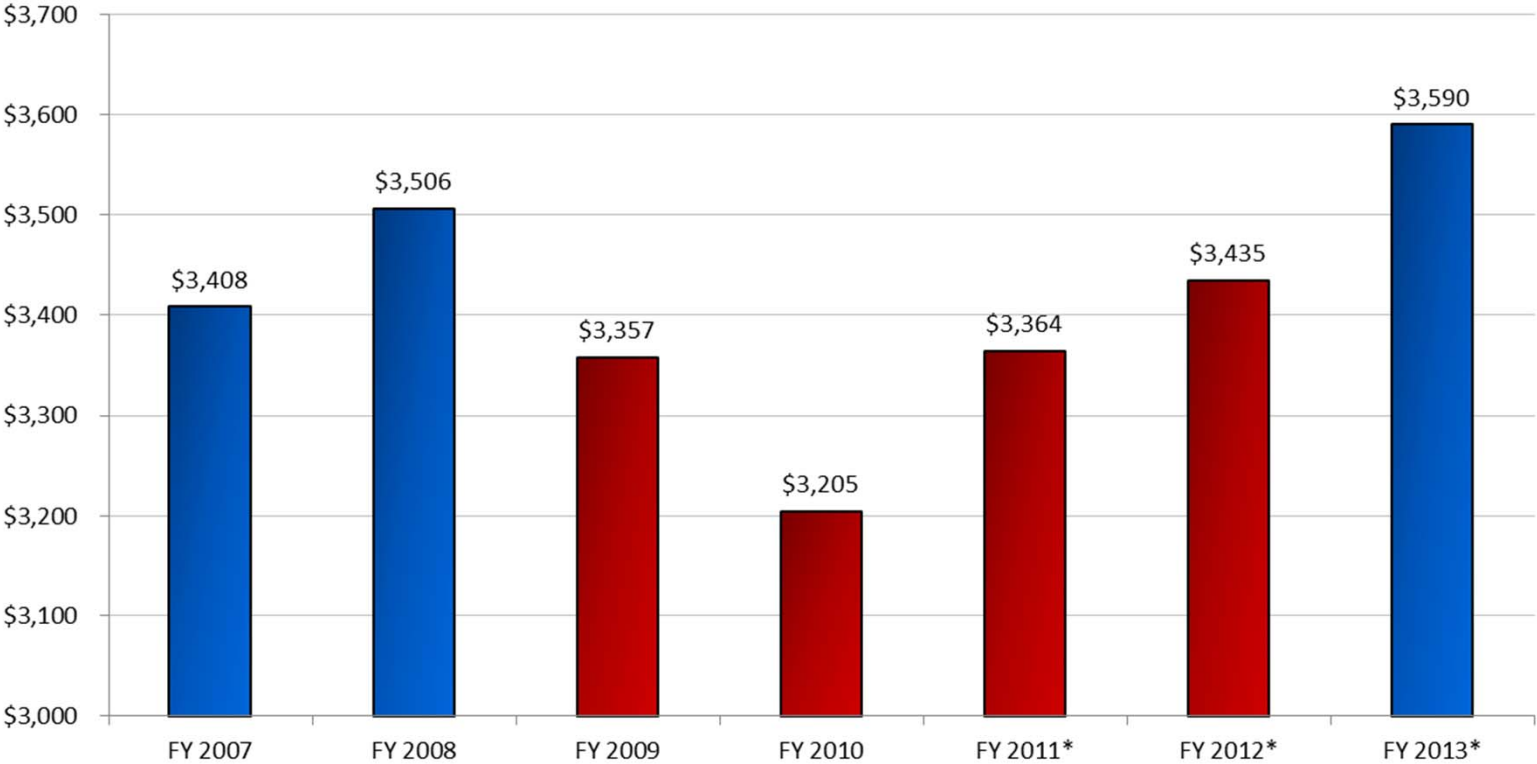


How do we compare?

- Nebraska is in better shape than most of America.
- 3rd lowest unemployment rate in America 4.6% vs. national average of 9.4%.
- ***Nebraska didn't spend money we didn't have.***

State of Nebraska

General Fund Revenue: FY 2007 - FY 2011 (in millions)



* FY 2007 through FY 2010 are actual. FY 2011 through FY 2013 are projected.



Key Principles for FY 12-13 Budget

- No tax increases
- Innovative investments
- Education & jobs are top priorities
- Strategic reductions



No Tax Increases

- Opposed to any income, sales, alcohol, cigarette, or gas tax increases.
- Fully fund \$230 million property tax credit.
- Failure to fund this program would be a direct property tax increase on every homeowner in Nebraska.



Innovative Investments

Nebraska has an unusually diverse economy (Battelle study)

12 industries positioned to grow:

- Agriculture & food processing
- Financial services
- Biosciences
- Computer & software services
- Renewable energy
- Transportation, warehousing & logistics
- R &D, engineering services
- Health services
- Business mgmt. & admin services
- Hospitality & tourism
- Precision metals manufacturing
- Agricultural machinery



Innovative Investments

- Legislature's Innovation & Entrepreneurial Task Force outlined a need to improve Nebraska's entrepreneurial environment.
- Similar recommendations to the Battelle study.



Innovative Investments - Jobs

- **Talent & Innovation Initiative**

4-part plan to continue positive economic momentum

- **Nebraska Internship Program**
- **Business Innovation Act** – leverage entrepreneurship, increase private research & innovation, and expand small business outreach efforts
- **Site & Building Development Fund**
- **Angel Investment Tax Credit Program**



Innovative Investments - Education

- \$8.5 million for development of Nebraska Virtual High School (lottery funds).
- \$25 million investment in Innovation Campus.



Education & Jobs - Top Priorities

- State aid to education is \$810 million in FY 12 and increases to \$860 million in FY 13.
- No reductions in higher education funding.
- Flat is good in this challenging financial environment.



Components of FY 12-13 Budget

- \$260 million from Cash Reserve Fund
- Cash transfers of \$68 million
- Reappropriations of \$15.5 million



Components of FY 12-13 Budget

- Temporary increase in FMAP expires June 30, 2011 and will require \$89 million in new general funds.
- Corrections budget adjusted for loss of \$17 million in federal funds.



Strategic Reductions

- Provider rates reduced 5% in FY12, flat in FY 13
- Eliminate city, county & NRD aid
- Eliminate state only option Medicaid benefits for certain aliens
- Reform Medicaid including: co-pays, expanded Preferred Drug List & no coverage for not meeting welfare work requirements



Strategic Reductions *(cont'd)*

- Eliminate state option food stamp benefit expansion
- Repeal Home Energy Conservation Improvement Program
- Eliminate Community Corrections Council, Rail Advisory Council & Jail Standards Board
- Reduce TERC Board by 1 commissioner
- State employee salary increases are 0% and 2%



Strategic Reductions *(cont'd)*

- Retirement contribution adjustments split equally between employee (50%) & employer (50%).
- Significant agency reductions, but no across-the-board reductions.
- Many of the Legislature's LR 542 options are part of budget recommendations.
- Legislature's budget is flat, except for 2% salary increase in FY 13, allowing time for the Legislature to reorganize their branch.

FY 12-13 Budget

- Difficult, tough but necessary budget decisions to position Nebraska for future growth
- Balanced budget
- Lobbyists & special interest groups will be critical, but my question to them is **“Where is their plan?”**
- If they want to spend more on Medicaid, *do they want to reduce education funding or raise taxes?*
- If they want to spend more on state aid to education, *do they want to cut Medicaid provider rates further or raise taxes?*



Local Governments

- Tax shift – not if local governments reduce spending.
- Cities, counties & school districts should follow the lead of state government.
- Legislature froze salaries of all employees for 1 year.
- Constitutional officers – 4-year pay freeze.
- Top & middle management salaries – frozen for 1 year.
- All contract covered employees took 2 furlough days during the past 4 months.
- Salary increases for contract covered employees for the next 2 years are 0% and 2%.



Questions...

- Have local elected officials frozen their pay?
- Have superintendents and top school administrators had their pay frozen?

Public School Superintendents

Total Compensation, 2008-2011 School Years

| School District | School Year | | | |
|-----------------------------------|-------------|---------|---------|---------|
| | 2008 | 2009 | 2010 | 2011 |
| Omaha Public Schools | 263,312 | 275,717 | 273,404 | 306,091 |
| Millard Public Schools | 254,269 | 271,500 | 282,456 | 287,100 |
| Lincoln Public Schools | 242,405 | 242,352 | 276,433 | 267,394 |
| Papillion-La Vista Public Schools | 225,858 | 233,171 | 236,652 | 243,303 |
| Fremont Public Schools | 163,499 | 172,492 | 181,116 | 241,498 |
| Elkhorn Public Schools | 215,231 | 204,696 | 230,958 | 240,043 |
| Grand Island Public Schools | 223,413 | 228,383 | 265,311 | 237,891 |
| Westside Community Schools | 251,672 | 214,190 | 228,572 | 234,626 |
| Kearney Public Schools | 167,501 | 178,033 | 216,633 | 225,205 |
| Norfolk Public Schools | 173,000 | 203,436 | 209,192 | 215,813 |
| Hershey Public Schools | 162,902 | 167,989 | 171,259 | 199,213 |
| Gretna Public Schools | 163,618 | 173,791 | 181,991 | 190,507 |
| Ralston Public Schools | 175,631 | 191,320 | 187,163 | 187,967 |

Public School Superintendents *(cont.)*

Total Compensation, 2008-2011 School Years

| School District | School Year | | | |
|--------------------------------------|-------------|---------|---------|---------|
| | 2008 | 2009 | 2010 | 2011 |
| Scottsbluff Public Schools | 155,661 | 163,441 | 193,224 | 186,078 |
| Hastings Public Schools | 147,500 | 151,925 | 182,541 | 183,088 |
| Gering Public Schools | 136,750 | 142,200 | 149,222 | 175,841 |
| Holdrege Public Schools | 135,316 | 161,754 | 169,393 | 175,471 |
| Dundy County Stratton Public Schools | 132,984 | 139,160 | 144,653 | 175,393 |
| Malcolm Public Schools | 121,806 | 130,368 | 137,319 | 172,221 |
| South Sioux City Community Schools | 154,314 | 162,221 | 166,970 | 164,732 |
| Ord Public Schools | 120,745 | 125,937 | 130,975 | 156,771 |
| Ogallala Public Schools | 120,689 | 125,000 | 131,400 | 156,069 |
| North Platte Public Schools | 161,894 | 150,000 | 150,000 | 150,000 |
| Fillmore Central Public Schools | 113,341 | 116,869 | 122,219 | 143,804 |
| Valentine Community Schools | 117,780 | 119,833 | 136,244 | 140,883 |

ESU Administrators

Total Compensation, 2010-2011 School Years

| Educational Service Unit | <i>School Year</i> | |
|--------------------------------------|--------------------|-------------|
| | 2010 | 2011 |
| ESU 3 (Douglas, Sarpy, Cass & Wash.) | 224,077 | 237,409 |
| ESU 5 (Beatrice) | 207,869 | 207,869 |
| ESU 16 (Ogallala) | 187,540 | 195,455 |
| ESU 4 (Auburn) | 167,450 | 174,539 |
| ESU 10 (Kearney) | 166,368 | 171,209 |
| ESU 9 (Hastings) | 135,500 | 162,838 |
| ESU 7 (Columbus) | 153,255 | 156,321 |
| ESU 6 (Milford) | 145,181 | 155,344 |
| ESU 1 (Wakefield) | 145,293 | 153,295 |
| ESU 15 (Trenton) | 143,751 | 150,467 |
| ESU 13 (Scottsbluff) | 143,125 | 148,134 |
| ESU 11 (Holdrege) | 126,307 | 144,266 |
| ESU 8 (Neligh) | 133,600 | 143,480 |
| ESU 2 (Fremont) | 132,089 | 120,000 |
| ESU 17 (Ainsworth) | 95,118 | 103,351 |
| ESU 19 (Omaha, OPS-only) | NA | NA |
| ESU 18 (Lincoln, LPS-only) | NA | NA |

General Fund Financial Status

| | Current | Next Biennium | | Following Biennium | |
|---|---------------|---------------|---------------|--------------------|---------------|
| | FY2010-11 | FY2011-12 | FY2012-13 | FY2013-14 | FY2014-15 |
| Beginning Balance | | | | | |
| Beginning Cash Balance | \$296,986,417 | \$119,670,337 | \$131,695,200 | \$214,231,798 | \$209,342,909 |
| Cash Reserve Fund transfer-Automatic | | | | | |
| Carryover obligations from FY2009-10 | (207,763,520) | | | | |
| Reduce FY2010-11 reappropriations | 15,567,172 | | | | |
| Allocation for potential deficits | | (5,000,000) | (5,000,000) | (5,000,000) | (5,000,000) |
| Unobligated Beginning Balance | 104,790,069 | 114,670,337 | 126,695,200 | 209,231,798 | 204,342,909 |
| Revenues | | | | | |
| Net Receipts (Oct. 2010 NEFAB; Following-LFO Hist. Av | 3,364,000,000 | 3,435,000,000 | 3,590,000,000 | 3,840,000,000 | 4,075,000,000 |
| General Fund transfers - out (current) | (120,725,000) | | | | |
| General Fund transfers - in (current) | In Receipts | | | | |
| Cash Reserve Fund transfers (current) | 154,000,000 | | | | |
| General Fund transfers - out | | (144,000,000) | (112,700,000) | (117,700,000) | (117,700,000) |
| General Fund transfers - in | | 34,620,500 | 33,620,500 | | |
| Cash Reserve Fund transfers | | 130,000,000 | 130,000,000 | (75,000,000) | (123,000,000) |
| 2011 Session Legislation | | 2,835,300 | (164,700) | (164,700) | (164,700) |
| General Fund Net Revenues | 3,397,275,000 | 3,458,455,800 | 3,640,755,800 | 3,647,135,300 | 3,834,135,300 |
| Appropriations | | | | | |
| Actual Expenditures/Appropriations (2010 Session) | 3,405,101,292 | 3,405,101,292 | 3,405,101,292 | 3,405,101,292 | 3,405,101,292 |
| Claims Bill | 2,034,666 | | | | |
| Deficit Recommendations | (24,741,227) | | | | |
| Budget Recommendations | | 36,329,645 | 148,117,910 | 148,117,910 | 148,117,910 |
| Following Biennium - Appropriation Adjustments | | | | 93,804,987 | 260,473,992 |
| General Fund Appropriations | 3,382,394,731 | 3,441,430,937 | 3,553,219,202 | 3,647,024,189 | 3,813,693,194 |
| Ending Balance | | | | | |
| Dollar ending balance | 119,670,337 | 131,695,200 | 214,231,798 | 209,342,909 | 224,785,015 |
| Minimum Biennial Reserve Requirement | 204,094,804 | -- | 210,258,697 | -- | 224,140,847 |
| Variance from Minimum Reserve | (84,424,467) | -- | 3,973,101 | -- | 644,169 |
| Biennial Reserve (%) | 1.7% | -- | 3.1% | -- | 3.0% |
| Growth Percentages | | | | | |
| Annual % Change - Appropriations (excl. deficits) | 2.8% | 1.1% | 3.2% | 2.6% | 4.6% |
| Two Year Average | -1.1% | -- | 2.2% | -- | 3.6% |
| Annual % Change - Net Receipts (Nominal) | 4.9% | 3.2% | 4.3% | 6.0% | 6.1% |
| Two Year Average | 0.2% | -- | 3.8% | -- | 6.0% |
| Structural Receipts v. Approps. | (139,119,731) | (112,975,137) | (42,463,402) | 111,111 | 20,442,106 |

General Fund Transfers

| Description | FY2011-12 | FY2012-13 |
|--|----------------------|----------------------|
| General Fund Transfers In | | |
| Lapse from Mutual Finance Assistance Fund | 620,500 | 620,500 |
| Transfer accrued interest from Life Insurance Demutualization Trust Fund | 1,000,000 | 0 |
| Transfer from the Tobacco Products Administration Cash Fund | 7,000,000 | 7,000,000 |
| Transfer from the Securities Act Cash Fund | 19,000,000 | 19,000,000 |
| Transfer from the Insurance Cash Fund | 6,000,000 | 6,000,000 |
| Transfer from the Motor Vehicles Cash Fund | 1,000,000 | 1,000,000 |
| General Fund Transfers In Total | 34,620,500 | 33,620,500 |
| General Fund Transfers Out | | |
| Transfer to the Property Tax Credit Cash Fund; net of available balance | (110,000,000) | (110,000,000) |
| Transfer to the Water Resources Cash Fund | (2,700,000) | (2,700,000) |
| Transfer to the Ethanol Production Incentive Cash Fund (current) | (2,500,000) | 0 |
| Transfer to the Ethanol Production Incentive Cash Fund (new) | (3,800,000) | 0 |
| Transfer to the Nebraska Capital Construction Fund (NCCF) | (25,000,000) | 0 |
| General Fund Transfers Out Total | (144,000,000) | (112,700,000) |
| Cash Reserve Fund Transfers | | |
| Transfer from the Cash Reserve Fund to the General Fund | 130,000,000 | 130,000,000 |

Cash Reserve Fund Status

| | Current | Next Biennium | | Following Biennium | |
|--|---------------|---------------|---------------|--------------------|-------------|
| | FY2010-11 | FY2011-12 | FY2012-13 | FY2013-14 | FY2014-15 |
| Beginning Balance | 467,201,627 | 313,201,627 | 183,201,627 | 61,752,627 | 136,752,627 |
| Transfer Amounts Above Forecasts | | | | | |
| To/From General Fund (current) | (154,000,000) | | | | |
| From Water Contingency Cash Fund (current) | | | 8,551,000 | | |
| To/From General Fund | | (130,000,000) | (130,000,000) | 75,000,000 | 123,000,000 |
| To/From Ethanol Production Incentive Cash Fund | | | | | |
| Ending Balance | 313,201,627 | 183,201,627 | 61,752,627 | 136,752,627 | 259,752,627 |

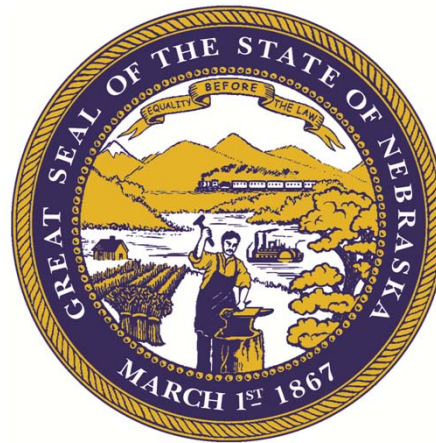


Summary

- Balanced budget without raising taxes.
- Priorities are education & jobs.

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