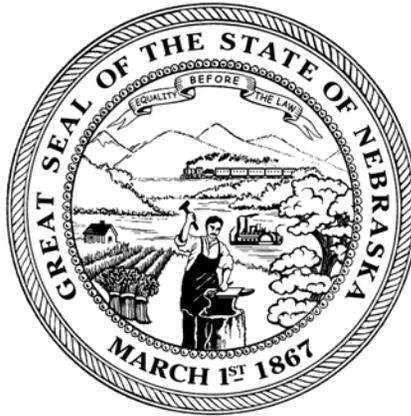


Mid-Biennium Budget Briefing

2005 – 2007 Biennium



Dave Heineman

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Governor

January 12, 2006

Reasons for Optimism

- ✓ Rebounding economy
- ✓ Success in working together
- ✓ Professional working relationship

Nebraska is on the move

- ✓ Nebraska Advantage
 - ❑ Job Training – distributed more than \$3.2 million with 1,765 jobs created
 - ❑ Microenterprise Development Advantage – awarded 12 grants totaling nearly \$450,000 for training and technical assistance
 - ❑ Tourism Advantage – distributed \$350,000 to 22 projects to promote Nebraska tourism
 - ❑ New ethanol plants – Jackson, Fairmont, Mead, Ravenna, Ord, Madrid, Blair, and Wood River
 - ❑ Nebraska Advantage took full effect January 1

Nebraska is on the move

- ✓ Success in securing new market for Nebraska agricultural exports
 - ❑ Cuba

- ✓ Working to regain ground in newly re-opened beef markets
 - ❑ Japan

 - ❑ Hong Kong

 - ❑ Thailand

Nebraska is on the move

- ✓ Next step in improving Nebraska's tax climate...

Tax Relief for Nebraska Families

The Time for Tax Relief is Now

- ✓ Finished FY 2004-05 with \$48.2 million excess receipts
- ✓ October board forecast – projected \$261.4 million additional receipts for 2005-2007 biennium
- ✓ Projected \$415.9 million FY 2006-07 Cash Reserve Fund balance

Meaningful and Sustainable Tax Relief

- ✓ Keep faith with Nebraska taxpayers
- ✓ Ability to grow state – lower taxes for individuals helps grow jobs
- ✓ Continue work to improve Nebraska's tax climate
- ✓ Taxpayers deserve a break – it's their money and they should decide how to spend it

Meaningful and Sustainable Tax Relief

- ✓ Comprehensive tax relief proposal

- ✓ Provide \$421 million in tax relief over three years
 - ❑ Income Tax Relief

 - ❑ Sales Tax Relief

 - ❑ Property Tax Relief

Income Tax Relief

- ✓ \$148 million in tax cuts over three years
- ✓ Roll back rates to levels set nine years ago, 1997
- ✓ Approximately 3 percent reduction in income tax liability

Sales Tax Relief

- ✓ \$99 million in tax cuts over three years
- ✓ Eliminate sales tax on construction and home improvement contract labor
- ✓ Repeal unfair and administratively burdensome tax that hurts homeowners and small contractors

Property Tax Relief

- ✓ \$174 million in tax relief over three years

- ✓ Accelerate TEEOSA levy limit reduction
 - ❑ \$1.025 in FY 2006-07

 - ❑ \$1.00 in FY 2007-08 and FY 2008-09

 - ❑ Eliminate the temporary aid adjustment factor in FY 2008-09

- ✓ Increase State aid to public schools

Comprehensive Tax Relief for Nebraskans

Description	FY2006-07	FY2007-08	FY2008-09	Total
Income Tax Relief				
Roll back income tax rates to 1997 levels (eff. 1/01/06)	63,185,000	41,020,000	43,639,000	147,844,000
Sales Tax Relief				
Exempt home improvement contract labor (eff. 1/01/07)	16,141,000	40,525,000	42,593,000	99,259,000
Property Tax Relief				
Accelerate TEEOSA levy limit reduction	26,700,000	56,800,000	90,900,000	174,400,000
			TOTAL	421,503,000

Taxpayers Expect Spending Restraint

- ✓ Address technical or emergent issues
- ✓ Encourage priority-setting
- ✓ Promote efficient management of existing appropriations

Mid-Biennium Appropriation Adjustments

- ✓ Agency supplemental appropriation requests of \$85 million

- ✓ Mid-Biennium recommendations include:
 - ❑ Appropriation or reappropriation reductions of \$46.3 million
 - ❑ Appropriations of \$39.3 million

 - ❑ Net appropriation reduction of over \$7.0 million

Significant General Fund Reductions

Agency	Description	FY2005-06	FY2006-07	Two-Year Total
Education	Revised TEEOSA Aid Estimate	0	(15,735,671)	(15,735,671)
Corrections	Projected department budget savings	(4,500,000)	(4,500,000)	(9,000,000)
HHS-Finance	Rebase Medicaid appropriation based on year-to-date analysis	(1,500,000)	(5,700,000)	(7,200,000)
Corrections	Adjust appropriation based on FY05 actual cash fund revenues	(3,231,923)	(1,096,199)	(4,328,122)
Corrections	Reduce FY05 unobligated reappropriation	(4,220,990)	0	(4,220,990)
HHS-Finance	Rebase CHIP appropriation based on year-to-date analysis	(900,000)	(1,250,000)	(2,150,000)
Retirement Systems	Actuarial valuation - overfunding of defined benefit retirement plans	0	(1,746,520)	(1,746,520)
HHS-Services	Part D Eligibility Determination	(242,244)	(577,585)	(819,829)
State Patrol	Reduce General Funds for one-time excess cash fund balances	(500,000)	0	(500,000)
NETC	Lapse unnecessary transmitter replacement funds	(232,506)	0	(232,506)
Other	All Other Reductions	(19,383)	(387,346)	(406,729)
Subtotal Two-Year Reductions		(15,347,046)	(30,993,321)	(46,340,367)
Less Inter-Year Transfer		0	(1,470,000)	(1,470,000)
Appropriation/Reappropriation Reductions		(15,347,046)	(32,463,321)	(47,810,367)

Significant Supplemental Appropriations

Agency	Description	FY2005-06	FY2006-07	Two-Year Total
HHSS	Medicaid - Federal Medical Assistance Percentage change	0	21,992,952	21,992,952
All Agencies	Employee health insurance premiums	2,479,006	5,271,696	7,750,702
Natural Resources	Integrated Water Management	0	3,249,318	3,249,318
Revenue	Homestead exemption reimbursement to political subdivisions	907,000	907,000	1,814,000
Administrative Services	Public Safety Communication System	150,000	850,000	1,000,000
HHS-Services	24-Hour Care Facilities - Utilities	748,549	0	748,549
Administrative Services	Foster Care system study	0	500,000	500,000
State Patrol	Gasoline costs	189,781	111,055	300,836
State Patrol	SLEBC / Management Salary Compression Pay Equity	0	277,450	277,450
Retirement Systems	School Employees Retirement - state contribution annual increase	0	271,302	271,302
State Patrol	Sex Offender Registry staff - replace federal funds	92,800	150,025	242,825
Retirement Systems	OPS Employees Retirement - state contribution annual increase	0	207,519	207,519
Other	All Other Supplemental Appropriations	604,627	343,933	948,560
Subtotal Two-Year Increases		5,171,763	34,132,250	39,304,013
Plus Inter-Year Transfer		1,470,000	0	1,470,000
Supplemental Appropriations		6,641,763	34,132,250	40,774,013

Mid-Biennium Appropriation Adjustments

General Fund Appropriation Adjustments	FY2005-06	FY2006-07	Two-Year Total
Appropriation/Reappropriation Reductions	(15,347,046)	(30,993,321)	(46,340,367)
Supplemental Appropriations	5,171,763	34,132,250	39,304,013
Inter-Year Transfer	1,470,000	(1,470,000)	0
Net Appropriation Changes	(8,705,283)	1,668,929	(7,036,354)

GENERAL FUND FINANCIAL STATUS

	<u>Actual</u>	<u>Biennial Budget</u>		<u>Est. for Next Biennium</u>	
	FY2004-05	FY2005-06	FY2006-07	FY2007-08	FY2008-09
1 Beginning Balance					
2 Beginning Cash Balance	\$176,438,015	\$403,258,772	\$324,210,843	\$204,510,786	\$200,781,372
3 Cash Reserve Fund transfer-Automatic	(108,727,007)	(261,715,297)	(159,742,000)		
4 Carryover obligations from FY2004-05		(101,436,130)			
5 Reduce FY2004-05 carryover obligations (2006 Session)		4,453,496			
6 Allocation for potential deficits		See Below	(5,000,000)	(5,000,000)	(5,000,000)
7 Unobligated Beginning Balance	67,711,008	44,560,841	159,468,843	199,510,786	195,781,372
8 Receipts					
9 Net Receipts (NEFAB Forecast.; LFO Hist. Avg.)	3,031,634,318	3,252,000,000	3,304,000,000	3,368,000,000	3,450,000,000
10 General Fund transfers-out	(1,640,000)	(4,140,000)	(4,140,000)	(5,640,000)	(2,640,000)
11 General Fund transfers-in	In Receipts	In Receipts	In Receipts		
12 Cash Reserve Fund transfers-legislative	26,000,000		15,674,107	10,177,767	4,990,505
13 Income Tax Relief- Roll back rates			(63,185,000)	(41,020,000)	(43,639,000)
14 Sales Tax Relief - Repeal tax on contractor labor			(16,141,000)	(40,525,000)	(42,593,000)
15 Cash Reserve Fund transfers (2006 Session)				95,500,000	95,500,000
16 General Fund transfers-in (2006 Session)		45,481			
17 General Fund Net Revenues	3,055,994,318	3,247,905,481	3,236,208,107	3,386,492,767	3,461,618,505
18 Appropriations					
19 Appropriations per 2005 Session	2,720,446,554	2,972,439,069	3,162,797,235	3,162,797,235	3,162,797,235
20 Mid-Biennium Adjustments (2006 Session)		(4,251,787)	1,668,929		
21 Claims Bill (2006 Session)		68,197			
22 Property Tax Relief - Accelerate levy limit reduction			26,700,000	56,800,000	90,900,000
23 Spending Estimate - Next Biennium, 5.2% annual				165,624,946	340,077,060
24 General Fund Appropriations	2,720,446,554	2,968,255,479	3,191,166,164	3,385,222,181	3,593,774,295
25 Ending Balance					
26 Dollar ending balance	403,258,772	324,210,843	204,510,786	200,781,372	63,625,582
27 Biennial Reserve (%)	7.60%	--	3.27%	--	0.91%
28 Variance from Minimum Reserve	237,291,769	--	16,183,163	--	(141,790,595)
29 Biennial Reserve @ 3%	165,967,003	--	188,327,623	--	205,416,176
30 Annual Spending Growth - Appropriations		7.9%	7.5%	6.1%	6.2%
31 Two Year Average Growth		--	7.7%	--	6.1%

CASH RESERVE FUND STATUS

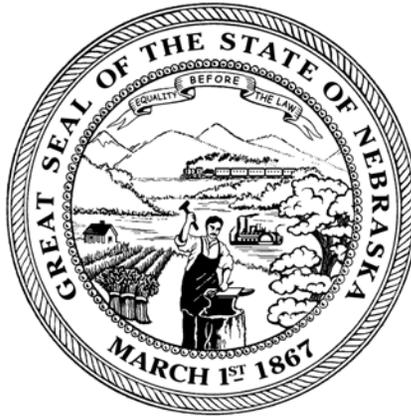
	<u>Actual</u>	<u>Biennial Budget</u>		<u>Est. for Next Biennium</u>	
	FY2004-05	FY2005-06	FY2006-07	FY2007-08	FY2008-09
1 Beginning Balance	87,028,337	177,167,720	273,616,789	415,900,266	310,222,499
2 Transfer Amounts Above Forecasts	108,727,007	261,715,297	159,742,000		
3 To/From General Fund	(26,000,000)		(15,674,107)	(10,177,767)	(4,990,505)
4 Cigarette tax/stamps, MV sales tax	8,170,556				
5 To NCCF for Eastern NE Vets Home	(758,180)	(4,454,860)	(1,784,416)		
6 To LLRW Settlement Fund		(145,811,368)			
7 To Nebraska Job Training Fund		(15,000,000)			
8 To/From General Fund (2006 Session)				(95,500,000)	(95,500,000)
9 Ending Balance	177,167,720	273,616,789	415,900,266	310,222,499	209,731,994

Mid-Biennium Budget Adjustments

- ✓ Provide tax relief
- ✓ Exercise spending restraint - net appropriation reduction of over \$7.0 million
- ✓ Maintain prudent Cash Reserve of over \$200 million

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