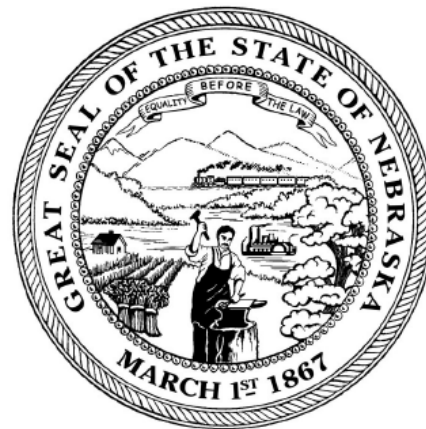


State of Nebraska



Executive Budget Presentation 2017 – 2019 Biennium



Pete Ricketts
Governor

January 12, 2017

State of the State Address

- Budget Recommendations for the Upcoming 2017-2019 Budget Biennium
 - On January 5th, made recommendations for adjustments to FY 2016-17 state budget
- Policy Initiatives for Consideration by the 105th Legislature

Budget Building Process

- Started working on the budget in June.
- Asked agencies to provide 8% in recommended modifications.
- This was an iterative process with my agencies.
- Budget Office worked closely with my agencies to ensure they can manage adjustments.

Brief Review of January 5 Recommendations

FY 2016-17 General Fund Budget Adjustments by Type

| <u>Adjustment Type</u> | <u>Amount</u> |
|-------------------------------------------------|--------------------|
| <u>Appropriations</u> | |
| FY 2016-17 Reappropriation Reductions | 77,454,598 |
| FY 2016-17 New Appropriation Reductions | 93,763,944 |
| - Across-the-Board Reductions | 42,369,058 |
| - Specific Reductions | 51,394,886 |
| - less FY 2016-17 Agency Deficit Appropriations | (20,054,965) |
| Total Net Appropriation Reductions | 151,163,577 |
| <u>Revenues</u> | |
| Specific Fund Transfers to the General Fund | 21,509,103 |
| Cash Reserve Fund Transfer to the General Fund | 92,000,000 |
| Additional revenue | 11,201,000 |
| Total Transfers In/Revenues | 124,710,103 |
| Total FY 2016-17 Adjustments | 275,873,680 |

FY 2016-17 Budget Recommendations

- Restored the 3% General Fund Budget Reserve
 - Essential starting point for building the 2017-2019 biennial budget
- Maintained an unobligated Cash Reserve Fund balance at \$500 Million
- Important to first address proposed FY 2016-17 changes
 - Affirm fiscal restraint and budget certainty regarding FY 2016-17
 - Establish the foundation for enacting the 2017-2019 biennial budget

2017 - 2019 Budget Recommendations

- No tax increases
- Prepare 2017-2019 biennial budget within the tax receipt forecasts provided by the Nebraska Economic Forecasting Advisory Board
- Two year average increase of 1.7% in appropriations for the 2017-2019 biennium over adjusted FY 2016-17 appropriations
- Structural balance (tax receipts versus spending) regained in the state budget
- 3% General Fund budget reserve of \$267 Million included in budget proposal
 - State Cash Reserve Fund balance maintained at \$500 Million

2017 - 2019 Biennium Budget Priorities

- Additional direct property tax relief
 - Property Tax Credit Fund \$440 Million--\$40 Million in additional State support, \$20 Million each fiscal year
 - Anticipated by LB 958 (2016 Legislative Session)
 - Homestead Exemption--\$159.2 Million--\$14.2 Million, an 11.7% increase for the biennium; 5.7% two year average increase
- State Support for TEEOSA School Aid
 - \$2.05 Billion--\$90.3 Million, a 5.4% increase, for the biennium in additional State support for K-12 schools; 2.7% two year average increase
- Special Education Aid
 - \$454.2 Million--\$10 million, a 3% increase, for the biennium; 1.5% two year average increase

2017 - 2019 Biennium Budget Priorities

Department of Corrections

- Fully funded budget request.
- Workforce and programming
 - \$435.5 Million--\$20.1 Million, a 6.8% increase, additional appropriation for the biennium; 3.3% two year average
- Capital facility operational improvements
 - \$75.2 Million--Reception and Treatment Center project
 - Critical healthcare improvements for operational support infrastructure at the Diagnostic & Evaluation Center and the Lincoln Correctional Center
 - \$1.1 Million for security system upgrades

Reductions in State Agency Appropriations

- 2017-2019 agency requests included proposals for possible General Fund budget reductions of 8%
- Recommendations for FY 2017-18 appropriations compared to the unadjusted FY 2016-17 base
 - Flat 0.13% decrease
- FY 2018-19 compared to FY 2017-18
 - 1.9% annual increase
- Two year average increase
 - 0.9% over the unadjusted FY 2016-17 base

Budget Adjustments: Major Categories

General Fund Only

| Type | FY 2017-18 over FY 2016-17 | FY 2017-18 Annual % Chg | FY 2018-19 over FY 2017-18 | FY 2018-19 Annual % Chg | FY 2018-19 over FY 2016-17 | FY 2018-19 % Chg over FY 2016-17 |
|------------------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|----------------------------------------|
| Agency Operations | (5,826,745) | -0.38% | 29,407,909 | 1.93% | 23,581,164 | 1.54% |
| State Aid | 523,666 | 0.02% | 41,296,824 | 1.45% | 41,820,490 | 1.46% |
| Aid to Local Governments | 35,114,934 | 2.41% | 22,385,174 | 1.50% | 57,500,108 | 3.95% |
| Aid to Individuals | (33,946,994) | -2.47% | 18,911,650 | 1.41% | (15,035,344) | -1.09% |
| Aid to Other | (644,274) | -2.32% | 0 | 0.00% | (644,274) | -2.32% |
| Capital Construction | (500,000) | -2.25% | 11,062,790 | 50.89% | 10,562,790 | 47.50% |
| Total Appropriation Changes | (5,803,079) | -0.13% | 81,767,523 | 1.86% | 75,964,444 | 1.72% |

Notes:

FY 2016-17 base appropriation prior to 2017 session.

Other Specific 2017-2019 Recommendations

Higher Education

- University of Nebraska
 - \$1.15 Billion
 - \$12.2 Million, or 2.1%, annual decrease in FY 2017-18
 - \$5.4 Million, or 0.9%, decrease in FY 2018-19 over FY 2016-17

- State Colleges
 - \$104.2 Million
 - \$749,369, or 1.4%, annual decrease in FY 2017-18
 - \$99,064, or 0.2%, increase in FY 2018-19 over FY 2016-17

- Community College System
 - \$195.6 Million
 - \$3.0 Million, or 3%, annual decrease in FY 2017-18
 - \$3.0 Million, or 3%, decrease in FY 2018-19 over FY 2016-17

Other Specific 2017-2019 Recommendations

Department of Health and Human Services

- Operations
 - \$533.6 Million
 - \$2.1 Million, or 0.8%, annual increase in FY 2017-18
 - \$7.2 Million, or 2.8%, increase in FY 2018-19 over FY 2016-17

- State Aid
 - \$2.7 Billion
 - \$33.6 Million, or 2.4%, annual decrease in FY 2017-18
 - \$17.1 Million, or 1.2%, decrease in FY 2018-19 over FY 2016-17

Other Specific 2017-2019 Recommendations

Department of Environmental Quality

- Storm Water Management Grants
 - Eliminate \$1.8 Million annual grants

Department of Agriculture

- Riparian Vegetation Aid
 - Reduce \$487,500, or 50%, of annual grants

Budget Summary

- No tax increases
- Increased direct property tax relief
- Increase investment in K-12 TEEOSA School Aid and Special Education Aid
- Critical improvements in Department of Corrections workforce, programming and infrastructure
- Two year budget growth of 1.7% over adjusted FY 2016-17
- Structural balance in State budget
- 3% General Fund budget reserve
- Maintain State Cash Reserve Fund balance at \$500 Million

Tax Relief the Nebraska Way

- Setting the stage for tax relief:
 - Constrain spending
 - Allow revenues to grow
- Tax relief will kick in as economy improves
- Initiatives allow time for planning
- No sudden changes in tax code
- Tax relief is the difference between spending, allowing revenue to grow

Legislative Initiatives

Agricultural Valuation Fairness Act

- Increasing agricultural land valuation calls for a change in the way agricultural land is valued for tax purposes
- Change valuation method from the current market value rate to an income potential model with a capitalization rate
- Increases TEEOSA School Aid in FY 2020-21
- Starts in January 2019

Legislative Initiatives

Income Tax Relief

- Supported by cutting the burdensome top income tax rate to provide tax relief to Nebraskans
- Propose to reduce the top income tax rate from 6.84% down to 5.99% over an eight-year period of time
- Beginning in FY 2019-20 the tax rate is reduced only if net General Fund revenue growth is projected to exceed 3.5% for the upcoming fiscal year
- Starts in January 2020

Legislative Initiatives

More efficient, more effective and more customer focused State government

- Veterans Homes Merger with Veterans Affairs
 - Provide Nebraska's veterans and their dependents with one place to receive benefits for their service
 - More efficient and effective service model with one agency responsible for veteran assistance throughout the veteran's life
- Aeronautics Merger with the Department of Roads
 - Partnership that will lead to a more effective and efficient service model to ensure a 21st century transportation infrastructure
 - Department of Transportation responsible for both modes of transportation
 - Reduce the size of State government while delivering the most uniform transportation policy possible to continue to Grow Nebraska

Legislative Initiatives

Regulatory Relief

- Support occupational licensing reforms to help reduce regulatory burdens for prospective job seekers
- Give businesses the ability to grow and expand by reducing barriers that are necessary to ensure a healthy economy
- Allow Nebraska to be more competitive in attracting and retaining talent

Legislative Initiatives Summary

- Agricultural Valuation Fairness Act
- Income Tax Relief
- More efficient, more effective and more customer focused State government
- Regulatory Relief

General Fund Financial Status

| | Current | Next Biennium | | Following Biennium | |
|---------------------------------------------------------------|-------------------|---------------------|------------------|--------------------|--------------------|
| | FY2016-17 | FY2017-18 | FY2018-19 | FY2019-20 | FY2020-21 |
| 1 Beginning Balance | | | | | |
| 2 Beginning Cash Balance | \$531,652,199 | \$263,176,405 | \$203,882,544 | \$272,688,263 | \$421,182,182 |
| 3 Cash Reserve Fund transfer-Automatic | | (32,710,103) | | | |
| 4 FY2015-16 carryover obligations/reappropriations | (310,603,783) | | | | |
| 4a Reduce FY2015-16 reappropriations | 77,454,598 | | | | |
| 5 Allocation for potential deficits | | (5,000,000) | (5,000,000) | (5,000,000) | (5,000,000) |
| 6 Unobligated Beginning Balance | 298,503,014 | 225,466,302 | 198,882,544 | 267,688,263 | 416,182,182 |
| 7 Revenues | | | | | |
| 8 Net Receipts (October 2016 NEFAB; Following-LFO Hist. Avg.) | 4,395,000,000 | 4,538,000,000 | 4,730,000,000 | 5,010,215,000 | 5,237,047,000 |
| 9 General Fund transfers - out | (216,660,000) | (234,970,000) | (234,970,000) | (235,970,000) | (235,970,000) |
| 10 General Fund transfers - in (usual and customary) | | 48,250,000 | 48,250,000 | | |
| 11 Additional revenue | 11,201,000 | 28,218,000 | 31,344,000 | 34,479,000 | 37,927,000 |
| 12 General Fund transfers - in (Transfers/Lapses) | 21,509,103 | 3,406,000 | 2,937,000 | | |
| 13 Cash Reserve Fund transfers | 92,000,000 | | (17,500,000) | | |
| 14 Income Tax Relief with revenue-based annual trigger | | | | (11,955,800) | (41,593,200) |
| 15 General Fund Net Revenues | 4,303,050,103 | 4,382,904,000 | 4,560,061,000 | 4,796,768,200 | 4,997,410,800 |
| 16 Appropriations | | | | | |
| 17 Appropriations (2016 Session) | 4,411,690,837 | 4,411,690,837 | 4,411,690,837 | 4,411,690,837 | 4,411,690,837 |
| 18 2017 Claims Bill | 394,854 | | | | |
| 19 FY2016-17 Base Appropriation Across-the-Board Reductions | (42,369,058) | | | | |
| 20 FY2016-17 Base Appropriation Specific Reductions | (51,394,886) | | | | |
| 21 FY2016-17 Agency Deficits | 20,054,965 | | | | |
| 22 2017-2019 Biennium | | (5,803,079) | 75,964,444 | 75,964,444 | 75,964,444 |
| 23 Legislation - Veterans Homes/Veterans Affairs Merger | | (1,400,000) | (1,400,000) | (1,400,000) | (1,400,000) |
| 24 Legislation - Agricultural Valuation Fairness Act | | | | | 19,800,000 |
| 25 Following Biennium - 3.5% Growth in Appropriations | | | | 157,019,000 | 299,734,000 |
| 26 General Fund Appropriations | 4,338,376,712 | 4,404,487,758 | 4,486,255,281 | 4,643,274,281 | 4,805,789,281 |
| 27 Ending Balance | | | | | |
| 28 Dollar ending balance | 263,176,405 | 203,882,544 | 272,688,263 | 421,182,182 | 607,803,701 |
| 29 Minimum Biennial Reserve Requirement | 263,019,963 | | 267,187,319 | | 293,209,726 |
| 30 Variance from Minimum Reserve | 156,442 | | 5,500,943 | | 314,593,975 |
| 31 Biennial Reserve (%) | 3.0% | | 3.1% | | 6.4% |
| 32 Annual % Change - Appropriations | 1.7% | 1.5% | 1.9% | 3.5% | 3.5% |
| 33 Two Year Average | 2.7% | -- | 1.7% | -- | 3.5% |
| 34 Annual % Change - Revenues (Nominal) | 2.9% | 4.3% | 4.3% | 4.6% | 4.0% |
| 35 Two Year Average | 1.4% | -- | 4.3% | -- | 4.4% |
| 36 Structural Receipts v. Expend./Approps. | (127,326,609) | (21,583,758) | 91,305,719 | 153,493,919 | 191,621,519 |

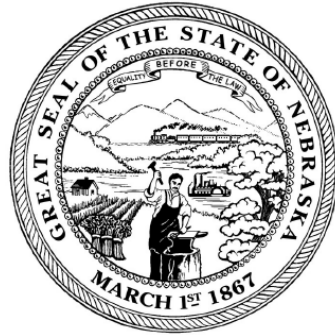
Cash Reserve Fund Status

| | Current | Next Biennium | | Following Biennium | |
|-------------------------------------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|
| | FY2016-17 | FY2017-18 | FY2018-19 | FY2019-20 | FY2020-21 |
| 1 Beginning Balance | 730,655,108 | 545,639,649 | 503,134,439 | 510,629,310 | 510,629,310 |
| 2 Transfer Amounts Above Forecasts | | 32,710,103 | | | |
| 3 To/From General Fund | (92,000,000) | | 17,500,000 | | |
| 4 To NCCF for Central NE Veterans Home | (43,015,459) | | | | |
| 5 To Transportation Infrastructure Bank | (50,000,000) | | | | |
| 6 To NCCF for DCS for Reception and Treatment Center | | (75,215,313) | | | |
| 7 To NCCF for Capitol HVAC | | | (10,005,129) | | (10,431,585) |
| 8 Ending Balance | 545,639,649 | 503,134,439 | 510,629,310 | 510,629,310 | 500,197,725 |

State of Nebraska



Executive Budget Presentation 2017 – 2019 Biennium



Questions and Answers?