



**Dave Heineman**  
*Governor*

## STATE OF NEBRASKA

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Mr. President, Mr. Speaker,  
and Members of the Legislature  
State Capitol Building  
Lincoln, NE 68509

Dear Mr. President and Members of the Legislature:

I am presenting my budget recommendations for your consideration for the 2011-2013 biennium. These are clearly challenging times.

The National Bureau of Economic Research Business Cycle Dating Committee, the organization that officially defines national business cycles, declared that the so-called Great Recession of 2007-09 ended after 18 months in June 2009. This declaration does not mean that the economy is back to normal. The current economic recovery has not been typical of the recoveries from previous national economic recessions. It cannot be characterized as robust. Many prognosticators have chosen to describe our current experience as the “new normal” in a seeming search to explain the dramatic effects this most recent national recession has had on the vitality of the nation’s economy, its people, and the capacity of its governments to maintain critical services.

The current state biennial budget was enacted during the recent national recession. Together we exercised caution and restraint in preparing that budget. A special effort was made to restrain spending and to preserve our Cash Reserve Fund in anticipation of the lingering adverse effects on state tax receipts. Spending growth was restrained at 1.1 percent and the Cash Reserve Fund maintained at \$325 million. When tax receipt forecasts were revised downward in October 2009, I promptly called a special legislative session and we made the budget reductions and other necessary changes to maintain a balanced budget. Spending growth was reduced to -1.0 percent and the Cash Reserve Fund balance was preserved at \$325 million. The 2010 regular legislative session required the same disciplined approach adjusting spending growth to -1.1 percent and the Cash Reserve Fund balance to \$322 million.

The current FY 2010-11 operating budgets for most state agencies have been reduced by 7.0 percent through successive across-the-board reductions. State employees, except employees of the Nebraska Department of Education, the Court System, and those covered by labor contracts, did not receive pay increases in the current year. Contract covered employees were furloughed without pay for two days. The number of permanent employees reported by state agencies at the end of FY 2009-10 was 305 less than the prior year. The budget actions undertaken by state agencies, boards and commissions during the current 2009-2011 biennium have accomplished the economies and restraint necessary to maintain a balanced state budget.

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The State Budget Division issued instructions to State agencies, boards and commissions in June 2010 regarding the development of the State budget for the 2011-2013 biennium. Those instructions specifically called for the submission of information that outlined state agency services and programs considered to be the lowest priority for financing if a reduction of up to 10 percent is necessary in the state budget. Your LR542 budget review process followed a similar approach using much of the information submitted by state agencies, boards and commissions on September 15, 2010, pursuant to the June budget instructions. The preparation of my budget recommendations has involved a time-consuming, detailed review of this information and all aspects of the State budget.

Today I am making no “across-the-board” budget recommendations. I am not recommending any tax or fee increases to finance the state budget. I am proposing specific recommendations regarding each state agency, board and commission, and the various aid programs of state government. My recommendations are a clear expression of priorities.

The Nebraska Economic Forecasting Advisory Board revised its General Fund tax receipt forecast for FY 2010-11 and established its initial forecasts for the 2011-2013 budget biennium at its October 2010 meeting. The revised tax receipt forecast is \$3.4 billion for FY 2010-11. The initial forecast is \$3.4 billion for FY 2011-12 and \$3.6 billion for FY 2012-13. The forecasts for the first two of these three fiscal years is less than actual General Fund tax receipts for FY 2007-08. In order to maintain critical state services and mitigate the effects of the decline in forecasted tax receipts, I recommend that \$130 million be transferred from the Cash Reserve Fund to the General Fund in both FY 2011-12 and FY 2012-13. The Cash Reserve Fund balance is estimated to remain at \$62 million at the end of the 2011-13 biennium after these proposed transfers. As Nebraska’s economy improves in the 2013-2015 biennium, I recommend that \$198 million be transferred from the General Fund to the Cash Reserve Fund to replenish its balance in preparation for any future adverse economic circumstances.

My budget recommendations continue the state property tax relief program begun in 2007 by transferring revenue from the General Fund to the Property Tax Credit Cash Fund for distribution in both 2012 and 2013 as credits against local property tax statements thereby reducing the tax amount owed by property taxpayers to their local units of government. The failure to fund this program would be a property tax increase on every homeowner in Nebraska. I am recommending no tax increases.

The federal government provided American Recovery and Reinvestment Act (ARRA) general services stabilization funds and enhanced federal Medicaid match rates (FMAP) which corresponded to a reduction enacted in the base General Fund appropriation for the Department of Corrections and the Medicaid program during the 2009-2011 biennium. My recommendations address these FY 2010-11 General Fund base appropriation cuts in order to maintain the security of our State prison system and the current level of eligibility for the

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Medicaid program as required by the federal government under the new federal health care reform law. The federal government also provided ARRA State Fiscal Stabilization Funds that were used to increase the level of school aid payments made during the 2009-2011 biennium. These one-time ARRA funds are not available to maintain this increased level of school aid payments during the 2011-2013 biennium.

In 2010 the federal Education Jobs Fund awarded Nebraska an additional \$58.8 million to be distributed as supplemental school aid payments during FY 2010-11. These funds may be expended by local school districts through FY 2011-12. I urge you to expedite consideration and passage of the necessary legislation to make these additional payments.

While the national recession has had a dramatic effect on the level of Nebraska tax receipt forecasts, I continue to place a priority on the financing of K-12 state aid to public schools. My recommendations maintain state support for TEEOSA K-12 school aid at \$810 million in FY 2011-12 and include an additional \$50 million to raise state support to \$860 million for FY 2012-13. While many state services are simply maintained, reduced or eliminated in my recommendations for this coming biennium, K-12 school aid remains a high priority which is reflected in this budget proposal.

We must also continue to make the investments that make Nebraska the ideal place to create jobs and grow a business. My budget includes specific recommendations provided by the recently released Battelle study on how to strengthen support for the companies that make up our fastest growing sectors and the people they employ. These include a series of four initiatives that provide funding for a Nebraska internship program, business innovation program, a site and building development fund, and an angel investment tax credit program.

My recommendations include \$8.5 million to support the joint efforts of the Nebraska Department of Education, the University of Nebraska, and the Nebraska P-16 Initiative to develop a virtual high school. This effort will provide fully accredited online high school courses with initial emphasis on science, technology, engineering, and mathematics. I am also proposing a one-time \$25 million investment in the University of Nebraska's Innovation Campus. Innovation Campus provides an outstanding opportunity to increase student enrollment, accelerate the expansion of research, and develop public-private partnerships in order to increase job opportunities for Nebraskans.

My General Fund budget recommendations represent an average 2.2 percent increase – a 1.1 percent increase for FY 2011-12 and 3.2 percent increase for FY 2012-13. Details are presented in this [Executive Budget in Brief](#), and a more comprehensive [Executive Budget](#), along with additional information available online at [www.budget.ne.gov](http://www.budget.ne.gov)

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As you undertake the arduous task of reviewing the budget requests of the various state agencies, boards and commissions and the recipients of the various aid programs, I encourage you to recognize the priority, importance and inextricable link between economic success and education success.

Thank you.

Sincerely,

Dave Heineman  
Governor