



STATE OF NEBRASKA

Pete Ricketts
Governor

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January 12, 2017

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

Dear Mr. President and Members of the Legislature:

On January 5, 2017, I presented my specific recommendations to you for \$276 million in budget adjustments to the current FY 2016-17 budget. Enacting changes to the FY 2016-17 budget is an important first step in addressing the tax receipt shortfall and revisions to tax receipt forecasts made by the Nebraska Economic Forecasting Advisory Board (NEFAB). I urge your prompt consideration of those recommendations.

Today I am presenting my budget recommendations to you for the 2017-2019 biennium accompanied by proposals for tax relief and a more effective, more efficient, and more customer focused state government.

My overall budget recommendations for the 2017-2019 biennium provide for two-year average growth in state appropriations of 1.7 percent. I recommend no tax increase and provide for a State Cash Reserve Fund with a \$500 million unobligated balance. Structural balance is restored to the State budget.

The challenge faced by Nebraska's agricultural economy has had a direct effect on the performance of state tax receipts and the forecasts provided by the NEFAB for preparation of the 2017-2019 biennial budget. State agencies, boards, and commissions have been required to exercise considerable fiscal restraint. Their General Fund budget requests include proposals that represent a possible eight percent budget reduction. Many of these proposals or other reductions have been included in my recommendations so that our limited resources may be used to finance K-12 education and operational improvements at the Department of Corrections as a matter of priority.

My recommendations include an increase of \$90.3 million in state aid through the state's school aid funding formula (TEEOSA). This represents a 3.8 percent increase in FY 2017-18, another 1.5 percent increase in FY 2018-19, for a 5.4 percent increase for the biennium. Special education funding is also increased by \$10 million, or three percent.

New leadership at the Department of Corrections and legislative oversight has identified improvements for the correctional services workforce and programming for inmates to enhance public safety. An increase of \$20.1 million, or 6.9 percent is provided for specific improvements in our prison system. I am also recommending the use of \$75.2 million in Cash Reserve Funds for construction of a Reception and Treatment Center at the Diagnostic and Evaluation Center (DEC) and the Lincoln Correctional Center during the 2017-2019 and 2019-2021 biennia. This facility will improve the operational capacity of the DEC and better meet the health needs of the inmate population.

My recommendations provide an additional \$40 million in direct property tax relief, \$20 million each year of the biennium as anticipated for the Property Tax Credit Fund with the enactment of LB 958 during the 2016 legislative session. Total direct property tax relief included for the 2017-2019 biennium is now \$448 million.

I have additional recommendations for this Legislature that look forward beyond the matters that must be addressed in preparing the 2017-2019 biennial budget.

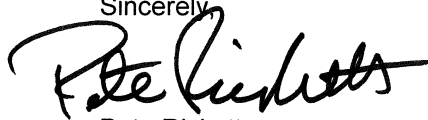
In order to provide fairness in the valuation of agricultural land, I am proposing that Nebraska change its method for assessing the valuation of agricultural land from the current market value based policy to an income potential model with a capitalization rate beginning January 1, 2019.

I am proposing legislation to phase-in incremental reductions to the top marginal income tax rate in the State of Nebraska beginning in FY 2019-20 by using a trigger method that maintains a rate reduction only when the forecast of net General Fund revenue growth exceeds 3.5 percent for the upcoming fiscal year.

I continue to emphasize the need to create opportunity for a more effective, more efficient, and more customer-focused state government. I am proposing the merger of the Department of Health and Human Services Division of Veterans Homes with the Department of Veterans Affairs providing Nebraska's veterans and their dependents with one agency responsible for veterans' assistance throughout the veteran's life. I am proposing the merger of the Department of Aeronautics with the Department of Roads to create a Nebraska Department of Transportation, a single agency responsible for both modes of transportation. I am also supporting legislation to provide for occupational licensing reforms to help reduce regulatory burdens for prospective job seekers. These proposals are made to improve state government services and to support our continued effort to Grow Nebraska.

The challenge of our current economy requires us to consider and make difficult choices regarding the use of our limited taxpayer resources. It also calls upon us to create opportunity for new and renewed growth in our State. I look forward to working with you on these important matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Ricketts", written in a cursive style.

Pete Ricketts
Governor