

STATE OF NEBRASKA

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January 15, 2003

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

Mike Johanns
Governor

Dear Mr. President and Senators:

Today, I present for your consideration my budget recommendations for the 2003-2005 biennium.

The past two years have witnessed national and international events that have dramatically altered our individual priorities and how we view the world around us. Since the Legislature last debated and adopted a biennial budget, our nation has been attacked, we've commenced a war on terrorism, our national economy slipped into a stubborn recession that refuses to loosen its grip, and our State has experienced a drought of historic proportions. Each of the events has challenged us as a State and as individuals. In over 135 years of our State's history we have met many challenges including recessions, the depression, drought, and farm crisis. Nebraskans have responded in a resilient manner to these challenges.

For more than eighteen months we have struggled with the immediate and now lingering effects of the 2001 recession on our economy. For State government, the consequence has been a precipitous freefall in actual and forecasted State tax receipts unlike any in memory. Actual net General Fund tax receipts for our most recently completed fiscal year were actually lower than each of the prior two years. We have been confronted with a decline of approximately \$648 million in forecasted tax receipts since adoption of the current biennial budget in 2001. During this time we responded in three successive legislative sessions to shore up the immediate effects of the economy on our State biennial budget. The lingering effects of economic change continue today. We must face this stark reality and prepare a biennial budget for 2003-2005 that is mindful of the personal capacity of our citizens to finance their government and that is, at the same time, responsive to the need to protect and to serve our most vulnerable Nebraskans.

I have prepared my budget recommendations guided by five principles:

- ◆ The budget is tied to the reality of the economy and current projections of tax revenue;
- ◆ There is no increase in the general sales and income taxes upon our citizens.
- ◆ Spending in each year does not exceed projected revenues in each year of the biennial budget;
- ◆ The core responsibilities of State government are protected to the fullest extent possible; and,
- ◆ The cash reserve is protected and increased.

The budget recommendations I submit to you today reflect these principles.

My overall spending recommendations for fiscal year 2003-04 are 2.9 percent less than the current fiscal year and nearly the same as the current fiscal year 2002-03 for the 2004-05 fiscal year. No transfers are made from the Cash Reserve Fund to finance additional spending. I am not recommending an increase in our sales and income taxes. Services for our most vulnerable Nebraskans are preserved.

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There is no easy path. My budget recommendations are stout fiscal medicine that I believe is necessary at this time in our State.

We will meet this current challenge. As always, I will have an open door to work with you during this 2003 legislative session.

Sincerely,



Mike Johanns
Governor