

STATE OF NEBRASKA

OFFICE OF THE GOVERNOR
P.O. Box 94848
Lincoln, Nebraska 68509-4848
Phone: (402) 471-2244
mjohanns@notes.state.ne.us



January 13, 2005

Mike Johanns
Governor

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

Dear Mr. President and Senators:

Today, I present budget recommendations for your consideration for the 2005-2007 biennium.

This past year has brought a turn for the positive in the economy of our nation and for the State of Nebraska. It was just two years ago that we faced the prospect of preparing the state biennial budget upon two years of negative growth in tax receipts. The current forecast of tax receipts for the next biennium represents an average of 4.1 percent growth. This is good news.

Our experience these past three years with fiscal adversity illustrates the importance of building the state's biennial budget, for both the short and long term, on sound financial principles including an adherence to structural balance and adequate cash reserves. Our fiscal discipline has served us well and will be critically important in the preparation of the 2005-2007 biennial budget.

The various state agencies, boards, and commissions have submitted budget proposals that exceed a 12 percent increase in the state budget. You will be presented with many additional worthy proposals for both short and long term commitments to additional spending. Needless to say, it is not possible to fund all requests.

This budget plan first addresses two fiscal and legal imperatives that must be accomplished in the development of the 2005-2007 biennial budget. It rebuilds the State's General Fund operating reserve by providing for a biennium ending balance that meets the current 3% minimum reserve requirement. It also proposes to pay \$145.8 million on August 1, 2005 to satisfy the low-level radioactive waste judgment against the state. A delay in full payment would require spending another \$8.2 million.

This budget plan does not recommend any tax increases and does not restore the many base budget reductions made since 2001. The recommendation fully funds the K-12 TEEOSA school aid formula and is the single largest increase in the State budget. It includes additional support for statewide economic initiatives and recommends financing the care of elderly citizens in state and private, long and short term care facilities. It also provides ongoing support for the very important and historic reforms in mental health, child protection, and the stewardship of a vital natural resource – water.

These recommendations for the 2005-2007 biennium represent a two year average growth of 5.8 percent. The majority of that growth is accounted for within three recommendations. The recommendation to fully finance the state aid to schools formula results, in the first year, in an increase of \$61 million, which is 40 percent of the total increase in spending. The recommendation to finance Medicaid, a major portion of which is our commitment to care for our aging population, represents an increase of nearly \$32 million, which is 20 percent of the total increase in spending. The recommendation to enhance financial support of our university, state colleges, and community colleges, involves an increase of nearly \$22 million, which is 14 percent of the overall increase in spending. When combined, these three recommendations account for nearly 75 percent of all recommended growth. Another 8 percent, \$12.7 million of the recommended spending increase is earmarked to meet annual financing requirements for State employee salaries and benefits.

Mr. President, Mr. Speaker,
and Members of the Legislature
January 13, 2005
Page 2

A third fiscal imperative addressed in the budget recommendations is the need for structural balance—a positive difference between net general fund tax receipts and general fund appropriations. These recommendations provide for that balance. However, this becomes increasingly difficult for the Governor and the Legislature as state aid to schools and Medicaid claim increasingly larger shares of the state budget. In that regard, planning estimates for the following 2007-2009 budget biennium indicate a continuance of the aid adjustment factor and the \$1.05 maximum levy limit for purposes of determining TEEOSA school aid. The planning estimates further indicate that future allowable spending growth can be no greater than five percent.

As always, I appreciate the special personal investment that each of you make on behalf of your constituents and the entire State of Nebraska.

Sincerely,


Mike Johanns
Governor