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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:

Today, I present my budget recommendations for your consideration for the 2009-2011 biennium. Economists and government officials advise us that the national economy has been in recession for thirteen months. This national recession, to date, has had a more immediate and significant effect in other states throughout our country. Approximately 22 state governments have already reduced their current FY 2008-09 appropriations and 28 state governments reportedly have a budget gap for FY 2009-10 that must be resolved by their legislatures prior to enactment of the next budget. Conservative tax receipt forecasts, disciplined spending, and a healthy cash reserve have Nebraska state government better prepared to address the effects of this economic slowdown on our state. Nonetheless, our work over the next several months enacting the state budget for the 2009-2011 budget biennium will present many challenges and require difficult decisions. The budget hallmark for most state governments, and surely for Nebraska, is a budget that is balanced.

The Nebraska Economic Forecasting Advisory Board established its initial General Fund tax receipt forecasts for the 2009-2011 budget biennium at its October 2008 meeting. The tax receipt forecasts of \$3.6 billion for FY 2009-10 and \$3.7 billion for FY 2010-11, representing 1.4% and 3.9% growth, respectively, were developed prior to the availability of much of the current information and analysis regarding the national recession and its present and anticipated effects on Nebraska and upon our tax receipts. The Forecasting Advisory Board will meet in February and again in April to provide updated tax receipt forecasts for the current and next two fiscal years prior to your enactment of the 2009-2011 biennial budget. My budget recommendations anticipate a downward revision of the October 2008 tax receipt forecasts for the 2009-2011 biennium by \$99.0 million. It is imperative that my recommendations and your decisions continue to exhibit a fiscally conservative, disciplined, and cautious approach during these difficult economic times.

My budget recommendations continue the state property tax relief program begun in 2007 by transferring available revenue to the Property Tax Credit Cash Fund for distribution in both 2010 and 2011 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 homeowners in Nebraska. I am recommending no tax increases.

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During difficult economic times, I continue to place a high priority on the financing of K-12 state aid to public schools. My budget recommendations for TEEOSA K-12 school aid include an additional \$35 million, a 4.3% increase for FY 2009-10, and an additional \$65 million, a 7.9% increase for FY 2010-11, above the current FY 2008-09 funding level. In addition, I am recommending an additional \$5.5 million, a 3.0% increase for FY 2009-10, and an additional \$11.3 million, a 6.1% increase for FY 2010-11, above the current FY 2008-09 funding level for state aid to special education.

Nebraska's Cash Reserve Fund is currently estimated to have an ending balance of \$593 million. My recommendation is to transfer \$80.0 million from the Cash Reserve Fund to the General Fund during the 2009-2011 budget biennium. This modest transfer from the Cash Reserve Fund to the General Fund allows TEEOSA school aid financing to be a priority during difficult economic times and allows for the State General Fund budget to be sustained at a growth rate of 1.8 percent.

An additional amount of \$200 million in the Cash Reserve Fund should be designated for contingent budget liabilities including water-related litigation, public retirement plan investment losses, possible loss of federal funding for the Beatrice State Developmental Center, and other budget uncertainties that may need to be addressed during the 2009-2011 or subsequent biennium. After such designation, the remaining balance in the Cash Reserve Fund would be \$302.5 million at the end of FY 2012-13.

My budget recommendations include a proposal to remove the variability and uncertainty about Nebraska's actual gas tax by amending state law to set it at a fixed rate equal to 26 cents per gallon—the current rate. Nebraskans will no longer need to experience a state gas tax that changes every six months and that increases without a direct vote on the gas tax by its elected State Senators. I also propose to transfer over \$7.0 million General Funds each year to the Department of Roads for purposes of financing motor carrier enforcement from general tax revenues, thereby freeing State gas tax revenues for the State Highway Construction Program. In addition, the Department of Roads has undertaken several internal cost efficiencies and reallocated resources to place first priority on road construction. My recommendations provide for a State Highway Construction Program of \$375 million for FY 2009-10 and \$370 million for FY 2010-11.

I urge you to continue to use a conservative fiscal approach as you develop the state budget plan for the 2009-2011 biennium that exercises caution regarding estimated tax receipts, restricts spending with a priority for funding K-12 education, and preserves the Cash Reserve Fund for the uncertainty and difficulty of our current and future challenges. Thank you.

Sincerely,

Dave Heineman
Governor