

STATE OF NEBRASKA

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October 23, 2001

Mike Johanns
Governor

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

Dear Mr. President and Senators:

On July 13, 2001, I asked all State agencies, boards, and commissions, along with their elected and appointed members and directors, to exercise enhanced spending restraint. I urged this restraint immediately upon learning that actual net general fund tax receipts for fiscal year 2000-01 were \$57.1 million less than forecasted by the Economic Forecasting Advisory Board.

July and August actual net general fund tax receipts were reported below forecast. This represented six of the last seven months in which tax receipts were below forecast. Most economic reports were consistently casting a negative view of current and near term growth in our economy. And, on September 11, 2001, the terrorist attacks on the United States caused significant personal loss for our citizens and increased concern about our economic future. At that time, I urged State agencies, boards, and commissions to prepare for a possible reduction in general fund biennial appropriations of as much as five percent. I also called for an earlier meeting of the Economic Forecasting Advisory Board and preparation for a special session of the Legislature to convene as early as October 25, 2001.

While September's tax receipts were above forecast, I am advised that this is but a temporary reprieve caused by a mismatch on the timing of forecasted corporate receipts and changes in the related tax filing deadlines. The trend of lower actual than forecasted receipts, consistent negative economic reports, and significant downward revisions in current and projected economic growth warranted my attention, that of the Economic Forecasting Advisory Board, and now the Legislature as it considers the necessary actions to address the decline in actual and now forecasted tax receipts by the Economic Forecasting Advisory Board for FY02 and FY03.

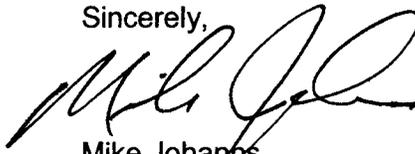
I believe that the citizens of the State of Nebraska expect us to budget our spending in a manner consistent with available revenues. It is not unreasonable for them to expect that we can make the necessary reductions in planned General Fund spending necessary to balance the State budget. My call for this special session of the Legislature and my specific recommendations include \$138 million in reductions to general fund appropriations and \$35.3 million in other budget adjustments affecting the General Fund. The total budget actions that I recommend you take during this special session of the Legislature are \$173.3 million. An additional \$48.0 million in budget actions will be necessary in the 2002 regular session if tax receipt forecasts remain unchanged. I am not recommending additional borrowing from the unobligated balance of \$45.5 million in the State Cash Reserve Fund at this time. My call for this special session does not allow or recommend a tax increase.

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My recommendations include across-the-board reductions and additional specific reductions in General Fund appropriations for many State agencies, aid programs, and capital construction. My specific proposals (enclosed) protect many of the highest priorities for State financing. These include programs providing for the health and safety of our citizens and the education of our young children.

Our current economic difficulties and the limitation of tax resources require us to make difficult decisions. We can work through this difficult situation together in a manner that best serves Nebraskans.

Sincerely,

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

Mike Johanns
Governor