

The Committee escorted Governor Exon to the rostrum.

GOVERNOR'S MESSAGE

Mr. President, Mr. Speaker, Members of the Legislature,
Ladies and Gentlemen:

Thank you for allowing me the time to present an Interim Report on the State of the State. This message will be brief but important.

I am pleased to bring you good news this morning!

Latest revenue projections and receipts, coupled with our on-going sound fiscal management policies, can allow at least a reduction of up to 33% next year on state income taxes by reducing the rate from 15 to 10%.

Even further tax reductions could be realized if you decide not to employ \$20 million of federal general revenue sharing for aid to education and real property tax relief. If this was the case and if you reject the temptation to spend such funds on other projects we could, in addition, reduce the state sales tax from 2½ to 2%. This eventually could provide, therefore, a decrease of 20% in the state sales tax in addition to the 33% reduction in the state income tax.

These tax reductions are possible and predictable only on the basis that the Legislature will not launch extensive new state obligations. We would also have to continue the policy of this administration to meet legitimate needs but refrain from trying to satisfy all by giving in to ever increasing spending demands.

While income tax refunds are running higher than normal we are experiencing substantial unanticipated increased revenues on both the state sales and income taxes.

The increased receipts are in part due to the present relative healthy state of the economy in Nebraska. I emphasize that these figures and recommendations are based upon present trends that we hope will continue. Barring any downturn in the economy or your increased spending directives, such reduced rates are attainable goals that will have to be formally and finally set by the State Board of Equalization at its meeting this November to take effect next year. They are predicated on the assumption of a good agriculture season and prices for our farmers and continued expansion of our industrial and tourism growth.

It is important that I share these facts with the Legislature and the people. Our Department of Revenue has just provided me with latest projections that indicate that the state will have a net increase from collections of \$8 million more than previously estimated for the end of the current fiscal period, June 30, 1973, plus a possible additional \$9 million for the fiscal year ending June 30, 1974, under present tax rates.

Due to cash flows, coupled with our established system of setting tax rates on a calendar rather than a fiscal year basis the tax decreases that I am suggesting are possible. It should be remembered that under our procedures we, in effect, set tax rates on cash flow requirements rather than strict adherence to calendar year liability.

I am sure that this information is timely, necessary and will be valuable as the Legislature now faces its important appropriation duties.

A word of caution is in order. I am hopeful that the majority of the Legislature will resist the tendency that will immediately surface by some special interest groups to view these additional tax funds as a bonanza to finance a host of projects.

While there are all kinds of spending authorizations that may be considered, I direct your attention to my budget recommendations, as amended, which I maintain meets the legitimate needs of the state, subject of course to relative minor adjustments the Legislature may care to make.

There is a very real threat to break wide open the Governor's realistic budget recommendations. Your Appropriations Committee has already increased my operations suggestions by nearly \$5 million dollars and coalitions within the committee and on the floor seem to be forming to add on an additional \$10 to \$12 million to my capital construction requests. This total increase of \$15 to \$17 million does not recognize other new multi-million dollar expenditures that are presently contemplated in bills initiated by Senators and under consideration at this time.

Let me remind you that under the previous every-other-year sessions, it was customary to authorize capital construction expenditures of between approximately \$20 to \$30 million every two years. During 1971, we approved \$6 million of constructions, in 1972 about \$18 million plus a \$12 million dollar field house. My recommendations to you this year were for \$18 million. In addition, we have approved a \$20 million state office building under special financing.

With this in mind may I suggest to your body that you now view yourselves as members of the Board of Directors of the biggest business in the state. We have, at least temporarily, the additional funds that I have outlined.

Do you now further enlarge the scope of the business and commit all or most of the increased revenues to additional spending programs? Or, on the other hand, do you conserve these funds as much as realistic and prudent and thereby allow the "stockholders", in this case the people of the state, a dividend in the form of a substantial tax reduction? It seems to me those are your choices. I recommend the latter course since the people are already carrying a heavy burden at the national, county and city levels especially on income and real estate taxes.

In addition to the increased revenues that I have announced in collections, we must consider the revenues available from general revenue sharing. Many spending eyes and ideas are eagerly viewing these federal dollars.

As Governor, I have suggested conserving most of these funds for aid to education and resulting property tax relief. The majority of your Appropriations Committee does not agree and seem destined to recommend all of these revenue sharing dollars for additional spending rather than any consideration for tax relief.

The point that I wish to make here is that the majority of General Revenue Sharing Funds, as originally intended and understood, should be employed to reduce taxes either through aid to education and accompanying real estate relief or by some other means. In my opinion, to do otherwise would be breaking faith. Contrary to some statements, revenue sharing is not "free money" but funds we must conserve and use wisely. They are tax funds like any other revenue of government.

Finally there have been concerns, some of which are legitimate, due to confusion in Washington which may reduce the flow of funds into some worthwhile programs. We have no reason to believe that all of this will be resolved before the first of July. As I warned in my January address, the state capitol doors have been spinning merrily by groups seeking state funding to make up for a potential loss in federal dollars.

At this time no one knows for certain if any federal funds will definitely be eliminated. Within the last week one Federal Court has ruled that the President may not impound funds while another has ruled that the President cannot dismantle programs established by the Congress.

I want to mention, in this regard, that this Governor has not and does not intend to impound duly authorized expenditures by the Legislature although I may heartily disagree with your actions. The separation of powers are more important than who happens to be the Governor or serves in the Legislature at a given time.

In closing, let me advise that if and when significant federal funds are actually lost on important people oriented programs, there will be sufficient time to call a Special Session, if absolutely necessary, and request legislative appropriations to cover any especially vital areas that might be impaired by Washington decisions. The cost of a Special Session would be far less than the funds which you may now prematurely authorize which might be unnecessarily spent in the event federal funds were not withheld.

I am sure that the information that I have provided this morning will be helpful to the Legislature. With you lies the sole responsibility for appropriations which actually set tax rates. It is my hope that you will respond favorably to my recommendations which, coupled with the very latest figures on revenues, will not only prevent a tax increase but allow reductions.

Thank you for your time and attention.

The Committee escorted the Governor from the Chamber.

MOTION—Order of Business

Mr. Carpenter moved to hold all the bills on Final Reading and go to General File, move all bills toward Final Reading and to expedite LB 259 across the board to Final Reading.

The Chair ruled this motion would take 25 votes.