

BUDGET MESSAGE OF GOVERNOR J. JAMES EXON

February 4, 1971

Mr. President, Mr. Speaker, Members of the 82nd Legislature, First Session, Ladies and Gentlemen:

Let me thank the Legislature for interrupting their busy schedule to allow me to present the Executive Budget today as required by statute.

In the preparation of a budget we must define our goals. We want to provide leadership to reality, leadership with vision, leadership that asks "how much do we get from our tax dollars rather than how many tax dollars can we get". On November 25, 1969, I called for a "return to reason" in state government. This budget is the beginning of a fresh, realistic approach and a return to reason that Nebraskans have demanded. This budget is for the people and by the people. It is a budget that will assure positive growth and assure confidence in state government.

This state has been on a crash program to out-do itself on spending and taxation. Your new administration has assumed the controls and is applying the brakes of no tax increases at the state level. We are setting a new tone for responsible action. We have carefully, deftly but deeply employed the surgeon's scalpel as opposed to the meat axe in trimming off layer after layer of fat from the most monstrous budget proposals ever presented a new administration. Yet we have not fled from legitimate needs and are recommending the largest budget in the state's history but one that can be financed, with intelligent and prudent administration, without a sales and income tax increase.

I ask the members of the Legislature to join with me to stave off demands for tax increases despite the unbelievable pressure that will surely come.

With this budget message and the detailed printed budget document that I am presenting today are the recommendations of the administration. In the next few days we will be presenting, for your consideration, the budget in the form of a bill or bills. This is a new innovation but after considerable discussion, we have concluded that this is the best manner in which to expedite the budget-making process.

Due to the limited time we have had to prepare our budget, we concede that this is not a perfect document and it is not presented as such. We encourage its review by the Legislature and its Budget Committee. The Executive Department will cooperate completely with the Legislature in your review of this budget and will consider shifting of priorities, programs, and appropriations if it is the will of the Legislature; provided, however, that the overall total budget appropriations fit within the limits of our tax framework.

We have reviewed the economic outlook for Nebraska and its impact on probable revenues. Agricultural production will increase but we would be less than frank if we did not concede that unless substantial changes are instituted by the Department of Agriculture in Washington, changes that are not now in prospect, we might expect further reduction in the net farm income with resulting low in tax revenue from this important segment of our economy. With determination we will fight at the local and national level to improve the income of our Nebraska farmers. When we consider appropriations, however, it is well for us to recognize that the general well-being of our basic industry leaves much to be desired. However, overall opportunities for our state are unlimited. We envision a substantial increase in industrial expansion under new approaches that will be put into practice by this administration.

Members of the Legislature, Ladies and Gentlemen, let us be realistic and reasonable as we approach our budget-making and appropriation duties. Fiscal responsibility, coupled with a new awakening that restraint is still a virtue, should be kept in perspective. Please allow me a few minutes to discuss my philosophy.

While there were and still are those "disciples of spending" who said it could not be done, we present you a budget in specifics today that meets the vital needs of Nebraska and all Nebraskans while "holding the line" as per our commitment on the sales and income tax rates. We will hold to the present 2 1/2% sales, 10% personal, and 2% corporate income tax rates for calendar 1971. Our projections are, as we anticipated and predicted, that we will have to return to the tax rates of calendar 1970 during calendar 1972. This will require continuing the sales tax rate at 2 1/2%, but placing personal and corporate income tax rates back to their 1970 levels.

They said we could not hold the line. We say we can. You have proof of that today in this budget.

There were and are those who contemplate the new administration with foreboding. Some who should know better considered our inaugural message one of "retrenchment". If prudence in spending and taxation is retrenchment, then we are guilty. If the halt to established tendencies to write a blank check to every special interest group, good or bad, worthy or questionable, regardless of its impact on the pocket of Nebraska taxpayers is retrenchment, then this Governor is prepared to accept such as a description of his administration with enthusiasm and thanks. The fears of the big spenders and their dreams of higher taxes and special projects are not likely to be calmed by this budget. The "retrenchment prognosticators" will persist even after today as your Governor presents you a budget that balances necessary spending with income—without sales and income tax increases.

This has been accomplished only by an austere approach to many outlandish programs. It has not been easy, but anything that is worthwhile seldom is. We have made full use of cash incomes, surpluses, and projected tax revenues. We have also provided for meeting all of the deficits that this administration inherited.

This budget is unique not only because we have authored "a hold the line" tax program but have actually offered every Nebraskan a tax cut totalling four million dollars each year with the elimination of the sales tax on food. Inequities now exist with the present and proposed system of credits on the income tax due to the variance of sales tax rates between some rural and urban residents. We will be furnishing members of the Legislature and the public further detailed information proving the need to eliminate the tax on food as 16 other states have successfully recognized and accomplished.

With the rapid changes that have been taking place in the last few years in Nebraska's tax structure, we believe this is a time for only careful reflection and refinement at best. It is the recommendation of the Governor that other than the elimination of the sales tax on food and the closing of loopholes in the income tax we should take no action this session on other exemptions or new taxes.

In this regard let me spell out a concern. While selling the people of this state on a so-called "broadened tax base" we have been narrowing that base steadily rather than broadening it ever since. Will you please reflect on that fact. The sales and income taxes are not a panacea for all tax problems. The continued pressure from some sources, day in and day out, for further unbridled advancement in these taxes, for pet projects or exemptions, must be stopped now if we are to have the flexibility likely to be needed in the future from such tax sources.

You have heard the lament—"Nebraska's tax rates are still among the lowest in the nation." When you look at the overall tax situation in Nebraska, this argument simply does not hold water. But let's assume for a moment that it does. Are low tax rates in themselves some kind of a disgrace? What is happening to our sense of values? Are our goals legitimate when they are directed towards increasing taxes because others have done so? Many of those dreaming of higher taxes have cited examples by saying "look at Pennsylvania, look at New York, look at California" and others where they "enjoy" a 5 or 6% sales tax and much higher income taxes. Their misleading sales pitch would pretend to imply all is well in those states. My fellow Nebraskans, please don't be fooled. The problems in New York, in California, and in Pennsylvania are manifoldly worse than ours. Read of their pitiful financial situations. Listen to their frank discussion of possible state bankruptcy. Our future is bright if we don't take the bait as others have that we spend our way to the good life. Let's avoid the traps of the tax happy troubadours.

I ask that the Legislature and the people of this state tax only where taxes are necessary to do what we must do for our great state. I also ask all of those in government to join with me in recognizing once and for all and forever that the taxation authority is a sacred trust. I say again that it takes more courage to say "NO" than "YES". We must reject the alarming tendency I note in some select but influential circles that higher sales and income taxes, bonded debt whether we need it or not at whatever the interest rate, and similar proposals are good for Nebraska. I submit that the people of this state have been pushed as far as they want to be pushed. It is time for real leadership to reassert itself once again in Nebraska rather than to falsely equate leadership with the ability to tax and spend.

The specifics of the budget are that we propose a 471 million dollar expenditure for fiscal 1971-72, and 486.4 million dollar expenditure for fiscal 1972-73. In capsule form the 1971-72 recommended General Fund appropriations increase is up 16.6 million over the 1970-71 estimated General Fund expenditures. Here are some of the areas where these additional funds will go:

201.6 Available Revenue 1971-72 in millions

185.0 Estimated General Fund expenditures for 1970-71

\$16.6 General Fund Increase

4.0 Reduction in revenue due to elimination of sales tax on food

6.6 To match Federal Funds to attack water pollution problems in secondary sewage treatment thereby relieving our cities of necessary local tax increases

1.5 Additional aid for mental health and mental retardation, area vocational technical schools and state vocational schools

4.1 To meet federal welfare requirement

These expenditures alone use up all of the 16.6 General Fund increases.

We hope that all can therefore appreciate, considering increases in other critical areas, that our task and now your task of establishing priorities among many areas of need was and is a most difficult one.

The University of Nebraska is a great university by any reasonable standard and we have programmed a budget that we are convinced will keep it in the forefront. While drastically reducing what we considered excessive budget requests we have provided an overall increase from all funds of over 8% for the 1971-72 year, from 71.9 million currently to 78 million next year. This has been accomplished despite a reduction of some 1.5 million from General Fund appropriations of last year.

The time for higher education to streamline, to innovate, to break through the time worn precepts is here. Students are becoming bored with humdrum approaches in education practiced in the days of yesteryear.

I am challenging the Board of Regents, the Administration, the faculty and students at the University of Nebraska to review their goals; to look at educational output not just input; to realize that educational costs will become prohibitive unless educators and officials charged with such responsibilities look and act on recommendations of the Carnegie Report and others calling for educational reform to restructure their thinking along the line of getting more value out of existing dollars. To create a top-flight University by channeling thought to concentration on present appropriations rather than to seek unreasonable spending goals.

Let the University of Nebraska become Number One also in furnishing the needed dramatic evolution in higher education. We have begun the "new day" by funding a requested Black Studies Program, \$150,000 for a Regents Commission Study on an Urban University, and a one million dollar discretionary fund for the Board of Regents. These are but the seeds. With care and nurturing they can grow dramatically.

We have also provided increases for medical school research, additional interns and residents at University Hospital, designed to encourage more doctors to remain in Nebraska.

The Department of Institutions historically is one of our larger spending agencies but no one can measure the tremendous return in satisfying human needs by those who care for and heal our less fortunate Nebraskans. We must be ever compassionate to their needs and our biennial budget in the field of institutions is up from \$69.8 million to \$79.3 million from all funds.

In the Department of Education we have recommended an overall increase of \$3.5 million from the General Fund for the biennium. This includes the strengthening of special education in addition to more aid to vocational and junior colleges. Both in the education and institution budgets we have recognized the need for further required investments in improved mental health and mental retardation services.

The State Colleges are receiving increases in General Fund appropriations of over 15% for fiscal 1971-72. While this is far below their requested 70% budget increase, we have begun the trend that must be continued to give these fine institutions a better break in comparison with other institutions of higher learning. We have also provided some capital construction funds for certain campuses where they are badly needed.

Public Welfare is an area of double concern. Meeting the human needs of those suffering from infirmities and lack of income by others to sustain themselves will always be an understanding consideration of the vast majority of Nebraskans. However, with the unbelievable increase in demands on welfare we are dangerously close to the point where we may be forced to take drastic steps in an effort to assure financial resources to

meet the needs of the legitimate recipients. Shockingly, despite the tight budget that you are being presented today, Welfare has the highest dollar increase of all departments with a \$9.4 million dollar all fund increase over last year. In view of this, your Governor, following the revelation of abuses in the State of Nevada and a new court decision allowing more leeway on investigations has ordered 162 trained welfare personnel into the field starting next Monday to ascertain how many currently on welfare can be legitimately removed from such rolls. We also appeal to the bonafide recipients of any type of welfare to cooperate with state and county officials and report abuses. It is time for those who receive legitimate help from the system to protect their current and future payments. Welfare is threatening to bankrupt many states and it must become an increasing concern for all Nebraskans while safeguarding the rights of the worthy recipients.

We salute the excellent and dedicated efforts of the men and officers of the Nebraska Patrol. Budget limitations prevent this administration from allowing as much needed increase as may seem justified. We are increasing the Patrol's budget over the next two years some \$1.5 million which, among other things, will provide 9 additional troopers and 6 new men in the Criminal and Drug Investigation Division. This fight must be stepped up, and it will be receiving top priority from the Exon Administration. We believe that additional funds to assist needed increases in the budget of this department can be made available through the Crime Commission under funds available from the Federal Safe Streets Act.

Last, but not least, we want to comment, with some pride, on our Department of Roads. This is historically one of the largest spending agencies in government but is seldom mentioned in a Budget Message because it operates principally from Cash Funds, gasoline taxes, excise taxes, user fees, etc. But this is not a department that should be considered "out of sight, out of mind". Certainly not with the attention it will receive from the new administration. We will be road builders, not just planners. This administration has, through cutting millions of dollars in layers of fat out of the budget left by the last administration, come up with a legitimate ten million dollar savings that can be used for road construction or matching Federal Funds in lieu of further bonded debt at this time; provided, of course, such funds are, in fact, needed. This ten million dollars was saved from non-building and non-construction funds. We will persist in handling highway matters in a business-like manner and this administration will keep its finger off the panic button.

Our Capital Construction recommendations total 14.9 million for the next biennium. This is approximately the same as the valid capital construction budget of the last biennium. Included is 3.5 million dollars for library additions on the Lincoln Campus of the University, 1.5 million dollars for a new and badly needed Home Economics Building on the Agriculture

Campus, and 1 million dollars for land acquisition on the UNO Campus to relieve their critical parking situation. In addition there is required construction and equipment to meet necessary fire safety standards on state-owned buildings throughout Nebraska and other high priority construction projects.

We recommend continuation of state aid to school districts, counties and municipalities at the same amounts currently in effect.

The problems of water and air pollution have basically been ignored in Nebraska save for words of concern by those in high positions. We must act now. A key budget expenditure of this administration, another first in Nebraska, is our recommendation for a total of 9.9 million dollars to allow Nebraska municipalities to match available Federal Funds for secondary water sewage treatment facilities. Because the matter was ignored last year, we are hereby requesting an emergency appropriation of 6.6 million dollars to meet Federal Matching Funds that are otherwise scheduled to expire in May and June of this year. We will request another \$3.3 million for the second year of the biennium next January to continue this program.

Included in our budget for all agencies is a salary increase of \$300 for fiscal 1971-72 for each state employee. This is particularly needed in the lower echelons of state government where those individuals have not shared in the recent handsome advances awarded many others. However, we are leaving the determination of these increases to the discretion of the department heads. There are no blanket increases directed, rather we simply providing the funds. Furthermore, we will direct a review of state employees presently rated over the median scale in job classifications by the Personnel Department. Merit increases must still be a vital consideration of state government.

There is so much to do. There is so much to be concerned about. This administration will direct its effort to providing sound business practices. We are shocked, for example, to learn just this week from the State Personnel Officer that Nebraska ranks near the top of all states on the ratio of state employees to population. The national average of state employees per 10,000 population is 105. Nebraska amazingly has 135 employees per 10,000 in population. We pledge to the Legislature and the people that our administration will investigate this apparent glaring inefficiency.

While there will be differences, we seek the counsel and advice of the Legislature on the suggestion we have outlined in this message, and in the budget details submitted today. We have labored hard to present a workable package that undoubtedly leaves something to be desired in

some areas. This we concede. We have attempted to be entirely realistic and fair. We will stand firmly behind the tax maximums we have outlined. We would not be fair with the Legislature if we did not make this very clear. It is our belief and certainly our hope that our budget is reflective of the thinking of the majority of the Legislature. We are certain this budget is representative of the thinking of most Nebraskans. Let us pray that men of good will, even with differing points of view, can debate this document with discretion and logic.

The Committee escorted the Governor from the Chamber.

EASE

The Legislature was at ease from 10:38 a.m. to 10:44 a.m.

BILLS ON FIRST READING

The following bills were read by title for the first time:

LEGISLATIVE BILL 659. By Terry Carpenter, 48th District.

A BILL FOR AN ACT to amend sections 79-4,118 and 79-4,119, Reissue Revised Statutes of Nebraska, 1943, and section 79-1338, Revised Statutes Supplement, 1969, relating to schools; to provide for purchase and loan of textbooks by school districts to private schools; and to repeal the original sections.

LEGISLATIVE BILL 660. By Gerald Stromer, 36th District; Roland Luedtke, 28th District.

A BILL FOR AN ACT relating to education; to establish a Division of Student Personnel Services in the Department of Education; to provide for the duties of such division; to provide for the appointment of a State Advisory Committee for Student Services; to provide duties as prescribed; and to declare an emergency.

LEGISLATIVE BILL 661. By Elmer Wallwey, 17th District; Fred Carstens, 30th District.

A BILL FOR AN ACT to amend section 32-513, Revised Statutes Supplement, 1969, relating to elections; to reduce filing fees for delegates and alternate delegates to the national convention as prescribed; and to repeal the original section.