

STANDING COMMITTEE REPORT
Agriculture and Environment

LEGISLATIVE BILL 182. Placed on General File.

(Signed) Loran Schmit, Chairman

MOTION — Escort Governor

Speaker Luedtke moved a committee be appointed to escort the Governor to the rostrum. The motion prevailed.

The Chair appointed Messrs. Keyes, Warner, Marvel, Kelly, and Moylan to serve on said committee.

The Committee escorted Governor J. James Exon to the rostrum where he delivered the following State of the State and Budget Address.

State of the State and Budget Address

Governor J. James Exon

February 10, 1977

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

Thank you for allowing me to appear before you today for the purpose of delivering the annual message on two vital subjects, the State of the State and presentation of the Governor's Budget for Fiscal 1977-78.

I am pleased to report that the State of the State is good, and the overall economy continues its growth.

Holding the line on the sales and income tax rates again is a principal consideration of my budget recommendations. I earnestly appeal to the Legislature to accept that concept above all others. My budget is tight, but prudent, and will insure the further sound development of our state and meet state government's realistic financial needs.

During 1976 the expansion of our economy did not fully recover from the 1975 nationwide recession, and this caused reductions in anticipated state revenues. Present indicators show that Nebraska's overall economic recovery is now occurring at a somewhat faster pace than the nation as a whole, but I urge caution on spending.

During 1976, we experienced a 3% increase in the total number employed over 1975. Personal income for the first three quarters of 1976 was 10% higher than the same period a year earlier. Manufacturing employment at the end of last year exceed 90,000 which was 7% above the same figure for 1975. That is twice the percentage increase for the nation as a whole in this category.

Expansion of industrial plants and new locations last year will generate 3,700 new jobs, an approximate 50% expansion over 1975. The 61 new manufacturing investments announced in 1976 is a ten-year high. While the unemployment rate has been reduced somewhat, any dramatic change this year will depend primarily on the success of federal pump priming efforts.

Nebraska was up one third in new housing permits the first three quarters in 1976 over the previous year. Our tourism industry had its best summer, when over seven and a half million non-residents visited all parts of our state. Tourism receipts to our economy approached nearly a half billion dollars.

Recent studies reflect that our population has grown faster than our neighboring states. We desire to continue to increase in this category, but at a measured rate.

While the overall picture for 1976 was good and predicted to improve this year, there is a most serious question mark about our number one industry, agriculture. The past year was not a good one for our farmers and ranchers, agriculture has been hit by three maladies simultaneously: drought, low prices, and steadily increasing costs of production essentials. A healthy Nebraska economy cannot be sustained unless there is an equalization of these three serious problems facing our agricultural producers. New and improved federal agricultural policies have been promised.

We have had three years of some degree of drought. Last summer, I found it necessary to declare half of our counties disaster areas.

There is scientific evidence that supports concerns that we may be in a severe drought cycle, the type that has economically devastated the midwest previously.

As we proceed, we must be aware of this primary threat to our farmers and ranchers and the possible detrimental effect on our economy. To do otherwise would be irresponsible.

This does not mean that we should proceed with trepidation as we face the most important consideration of this or any other legislative session...the building of a prudent and workable budget, based upon balancing income with outgo.

This is February 10. Ninety days from now we will have a much clearer picture of the extent of the drought and three additional months of actual revenue receipts. By that time we will also have a better understanding of how the energy crisis will affect Nebraska. By May 10, then, probably about the time your honorable body will be making your final budget determinations, the Nebraska economic situation will be in clearer focus. By that date, if there are substantial changes not currently predictable, I shall advise you of any necessary alterations in my budget recommendations. I emphasize now that if revenue predictions are not holding then, further painful reductions might be necessary in capital construction and other areas.

By careful planning and employing a businesslike approach to the state's resources and obligations, in full cooperation with the State Treasurer, we will continue to manage any temporary cash flow problems that may occur during the last five months of this fiscal year by temporarily calling on, if necessary, some future obligated but currently available funds which are not a part of the General Fund. We have always kept the state in the black. We have been operating a multi-million dollar business with less than desirable working capital. We need at least a 6% overlevy next year to guard against possible drought connected revenue losses and to assist in any cash flow problems.

Unlike subdivisions of state government, who know almost precisely what their income will be when preparing budgets for the next year, we at the state level do not enjoy that dollar income guarantee. We must rely on "estimates" of how much will be received from sales and income taxes. It is well known that revenue projecting is an inexact science because of the unknown variables affected by the uncertainty of economic conditions across the state and the health of the national economy which also affects Nebraska. That is why the state law requires a "reserve," or "overlevy," after total appropriations are set. Our Department of Revenue has done a good job over the years on estimates, missing by only 5% of their projections last year; but that left a shortfall of \$21 million in anticipated receipts. Coupled with minimum reserves allowed by law and excessive expenditures, a problem developed. For the first seven months of this year, primarily because of low farm prices, drought, and the unfavorable national economic picture, we are now approximately \$13 million below expectations. The first five months of this fiscal year were below estimates while the last two months have been right on projections, or slightly improved. However, the June 30 year-end balance will be low - just one more reason demanding spending restraints.

The executive budget represents a sound and solid work product completed after extensive and time consuming deliberations. No decisions were easy. I have reduced by \$37 million agency requests to bring the budget within the framework where we can hold the line on sales and income tax rates and still meet essential needs.

Despite the \$37 million reductions I have made from agency and department requests for operations and state aid next year, total general fund expenditures are recommended at \$473 million, up \$36 million or 8% from the current year. To that recommended expenditure, we must add \$29 million for the 6% reserve, \$7.3 million for minimum capital expenditures, and \$6 million for increased food tax exemptions which all appear to accept as fair and necessary. This brings total general fund obligations and reserves to \$515 million, the same figure estimated in total receipts and carry-over funds at the fiscal year. The executive budget is therefore balanced and based upon no increase in sales and income tax rates.

All revenue sharing and cigarette tax funds are obligated for capital construction, most of which have been previously appropriated by the Legislature.

As stated, my suggestions include an additional \$6 million necessary to raise the food tax credit from \$16 to \$20 per person. If the Legislature can make reductions in my budget to cover the additional multimillion dollars necessary to eliminate the sales tax on food at the grocery counter altogether, I would agree, provided other necessary functions are not eliminated in the process. A better method of finally eliminating completely the sales tax on food at the grocery counter which I have always supported, might be the suggested phased plan over two years on raised credits then elimination of this tax. However, you struck that idea yesterday.

Because of my budget reductions as to requests and rejection of new spending programs already introduced in this body, there will be heard howls of anguish minutes or seconds after I have finished here this morning. That will be nothing, however, and I warn the Legislature accordingly, to the outpouring you will hear if you, by your actions, cause raises in the state sales and income tax rates. I urge you to accept the fact now that you have only essentially \$473 million to appropriate. You have the prerogative of changing my specific recommendations within that total, make reductions and additions where you think best, as my recommendations are not considered infallible. But please, again I urge, accept the fact first that you have only that \$473 million to spend. There are areas that I also would have liked to recognize, but budget restraints dictated by priorities prevented that.

A case in point can be made in how well we have done for university financing when we consider that just three years ago the University General Fund Budget was only approximately half of what I am recommending next year.

I urge once again that the Legislature set up a proper display in this chamber that will show daily your maximum \$473 million spending limit and reduce that amount accordingly each time you authorize expenditures.

I recommend once again that all nonessential "A" Bills be held in your Appropriations Committee to be brought forth by that committee with its final total recommendations so that you may have an accurate figure on total appropriations before you act.

The Legislature should be alerted to the fact that already there has been introduced new spending measures in this body this year totaling over \$80 million. That figure, coupled with the \$37 million I have recommended for elimination from agency requests shows that you have a total of at least \$117 million to reduce. The Legislature must now begin its job to set priorities on spending and establish limits. You have a lot of "No" saying to do to many, including some of your own.

Forty percent of the increase in General Funds over last year is necessary because of long-range legislative predetermined commitments. While I have disagreed with some, I bow to past legislative dictates and have funded all your previous ongoing decisions including an additional \$13 million for personal property relief, which will bring that single reimbursement to subdivisions of the state to \$53 million next year.

Another additional \$1.3 million is required for homestead exemptions.

The breakdown of state spending under my budget matched against total anticipated state dollar receipts shows the following percentage allocation for next year:

52.3% in aid to subdivisions of state government (primarily counties, municipalities, and school districts) and individuals.

24.4% to higher education (the university and the four state colleges).

23.3% to all other services and operations of the state.

With the bills presented here this morning, we have developed a new format. All state generated funds that are paid out to subdivisions of state government and not spent by the state itself are in the form of separate bills so that all may clearly understand where the money goes.

Hopefully, this might help quell the great hue and cry that fills these halls each year at this time with trumpeted demands that state coffers must be tapped again and again, more and more, from the magnificent and mysteriously endless pot of gold that majestically pours forth from the big tall building in Lincoln.

Many new spending demands for more state aid are usually cloaked in the familiar and near sacred garb of providing tax relief. We have had nearly ten years of the sales and income taxes and hundreds of millions of dollars of expenditures for tax reduction schemes, and yet, no meaningful tax relief. For example, when the Legislature passed the "tax relief" bill for business inventory over my veto in 1972, it set in motion a phased program that has so far cost the General Fund a total of \$88 million, and that total will grow to \$141 million next year.

The time has come to call a halt, or at least a long pause and careful reconsideration, before we plunge down the same spending road that has proven only thus far that it leads to a black bottomless spending pit from whose bourn no traveler or dollar ever returns.

We will now turn to some specific agencies and my recommendations.

The new capital construction budget is extremely limited. We have funded all necessary and requested funds for maintenance repairs and renovations as first priority. This carries a cost figure of \$7 million. There are only three new structures recommended, all items that have been long delayed because of budget restraints.

First, is a needed tractor testing facility for the agricultural campus at \$1 million. Second, is the long delayed health, physical education and recreational building at the Omaha campus at \$4 million, reduced from their request of \$7.3 million. There will be claims that the Governor's recommendations are not sufficient. We have checked recent costs of similar facilities at other campuses, and are convinced that amount is adequate. Third, a badly needed physical education facility at Peru State College at \$1.7 million, reduced from the requested figure of \$2.8 million.

The University of Nebraska, and education in general, has always received my strong support and will in the future. We can all be proud of our great university and its excellence and must assure its viable future.

Yet, I have strenuously objected to what I consider some excessive appropriations and the general feeling by some that the substantial increase I have recommended each year was just a starting point for bargaining with the Legislature for even more additional spending. The university has been amazingly successful in lobbying the Legislature even over my vetoes. Nevertheless, I shall persist in doing what I believe to be right and reasonable.

By most standards of measurement, the University of Nebraska and higher education in general in Nebraska is financially supported near the top in any state-by-state comparison. The "chronicle of higher education" and other nationally recognized studies show that higher education in Nebraska is prospering. In the latest standings among states, we rank fifth from the top in the past two years of percentage of increased tax funds for higher education, up 43%. We also rank fourth from the top in this category for the past ten years, up 457%. Only three other states in the nation share the distinction with Nebraska of ranking in the top ten states in both the last two and ten year categories of increased percentage spending of tax dollars for higher education. Those other three states with us in this elite category are Alaska, Idaho and Texas.

A case in point can be made in how well we have done for university financing when we consider that just three years ago the University General Fund budget was only approximately half of what I am recommending next year.

I was astounded when the university requested a further General Fund increase for operations of 18% for fiscal year 1977-78, after receiving increases of 23% in 1976-77, 20% for 1975-76, and 25% for 1974-75, remember this is a compounding increase each year, building and building as the years go by.

Depte the mammoth capital construction increased authroizations each year, the university has requested new monies totaling over \$52 million primarily for construction and renovations in the next two to three years. Included in that figure was preliminary planning and the development of cost estimates for at least eight new structures planned for construction in the near future. We cannot afford that and maintain operation funds to guarantee quality education at Nebraska.

During all of this period of startling increased tax dollars appropriations for operations, we have also seen vast new construction expenditures and plans for more, while student full-time equivalent enrollment has been static or declining.

The requested 18% increase for next year of \$112 million for operations is far in excess of real need, and I am recommending an overall 6.5% addition for the university system for a figure of \$100.8 million, up from \$94.6 million this year. My recommendation is in line with recent suggestions by some members of the Board of Regents. In capital construction, I have allowed essentially only maintenance and repair requests, in addition to the tractor testing and HPER construction.

I again call for allowing great flexibility for the Regents in carrying out their management duties and allotment of expenditures.

There has been created a Regent's Discretionary Fund, and I recommend at least \$700,000 from that source go to further improve the institute of agriculture.

I am providing the Regents the opportunity to reduce the central administration to half its present size, to convert employees into staff for the Regents, to reallocate resultant savings of approximately half a million dollars to program improvements at the campuses, and to restore the three Chancellors to more traditional roles of leadership in and for their academic communities.

While ultimate decisions should be made by the Regents, I have some firm recommendations on the medical school. Our medical college has developed into a highly regarded facility with expertly qualified faculty and a good physical plant for medical teaching and research. Nebraska taxpayers have handsomely expanded funding for our medical college in recent years with the hope and promise that more general practice physicians would be available for rural practice. I have not been satisfied with the results.

The State Department of Health has accumulated some rather alarming statistics that prove my point. In the first half of the 1960's, the medical school graduated 382 physicians and 22 of those are practicing in rural Nebraska; in the last half of the sixties, the graduates totaled 419, but only 11 are in rural practice; in the first half of the 1970's, there were 683 graduates, but only 7 are currently in rural practice. The higher the total graduates, the less we find locating in areas of primary concern. We do not wish to place a damper on research or those seeking training in any area of medicine. Rather, we insist on more concentration on family practice as a better recognized specialty. Most recently the medical school added on one extra year of training for graduates, a move that unquestionably will deter us further in meeting our urgent need, unless we can integrate that extra year into the present residency program.

It is obvious that a strong message must be sent, one that cannot be misunderstood, through the Regents and to the medical college. I am suggesting a three-point program to solve this problem.

First, I am recommending placing \$1 million of the Medical School's budget request in the hands of the Regents to be expended only upon satisfactory demonstration by the school to the Regents that current trends will be reversed and how they propose to accomplish same. The age-old professional excuses and jargon will not suffice.

Secondly, I am suggesting a relatively small amount of funds to support the Nebraska Health Manpower Referral Office, headed by your former colleague, Senator Tom Kennedy, in support of his ongoing efforts to recruit more qualified physicians from whatever the source.

Thirdly, I am recommending by a bill introduced here this morning for your approval to create a commission on Rural Health Manpower. The purpose would be to advise the Governor, the Legislature, and the Regents

and through them the medical college on rural health needs and how to best accomplish correction of the present course. The commission would be created for only three years and would end then unless renewed by the Legislature. The seven member commission would be appointed by the Governor, confirmed by the Legislature, and would consist of a medical student primarily concerned with family practice, the Director of Health, three rural physicians, and two lay representatives of rural Nebraska.

Notwithstanding the the Regent's high priority approval accordingly, I am unalterably opposed to the multi-million dollar request, at least at this time, for a new cardiovascular facility on the college of medicine campus. It would be nice, I concur, but priority considerations do not allow such a capital expenditure now, to say nothing of future staggering outlays required for new staff.

I hope that this will not be construed in such a manner as to suggest that the Governor is for heart disease or heart attacks. Many highly respectable heart specialists and other physicians have advised me that they are dubious of the critical need of such a program in Nebraska and question if the proposal would not expensively and unnecessarily duplicate existing facilities and research currently available in Nebraska and elsewhere. At best this idea deserves more study, and we should not be stampeded into such an undertaking.

The state colleges carry on an important role in our overall higher education programs. For next year, I have suggested a percentage increase of 6.8% for \$1 million additional funding over last year.

Our community technical colleges are doing an excellent job in meeting educational requirements in their field of higher education. In my budget, I have provided an additional \$600,000 over last year in state aid to these locally controlled colleges.

The State of Nebraska is privileged to have hardworking and dedicated public servants who carry out their assigned duties with responsibility. They are struggling, like others, to meet their obligations and raise their families under economic pressures. They are entitled to a raise in salary next year of 4% on July 1, 1977 and an additional 3% on the anniversary date of their joining government service. This is equivalent to a yearly increase cost to the General Fund of 5½%.

Human services and their necessary increased funding are a priority consideration in the executive budget. You will find \$1.2 million to maintain aid to local transit authorities, primarily to assist senior citizens; increased rates for foster care homes for children; needed improved funding for the aged, blind and disabled services including foster care, board and room, setting rental rates and state supplemental programs for alternatives to institutional living; \$1 million additional for the Veterans' Trust Fund; increases for aid to dependent children of \$1 million, to cope with steadily mounting costs of fuel and other necessities; and funds to assist in improving collections of child support payments.

In the area of mental retardation, the Governor's budget calls for \$750,000 in new funds plus reappropriation of any carryover not

expended this year to further assist community based programs to assume clients from the Beatrice Home. For the Beatrice Home itself, my recommendations provide for full support in meeting national accreditation standards for that institution, making it one of the first larger multi-purpose institutions in the nation to be so accredited and necessary capital construction to meet new federal medicaid requirements.

I am requesting an increase in special education funding of nearly \$2 million over this year for a total of \$15.4 million in fiscal 1977-78.

Alcoholism continues to be a serious problem, and in my recommendation is \$1.1 million from the Department of Institutions Alcoholism Cash Funds to be distributed to the six regional mental health boards to be combined with matching funds. The funding for this is made possible by LB 293, that was introduced at my request, to raise taxes on alcoholic beverages.

In the field of corrections, it has been found that the 1973 legislative professional study predicting a yearly 6% growth in inmate population was far short of the actual situation. Instead, we have been increasing at the overall rate of 15% per year. Since fiscal year 1974-75, the Penal Complex in Lincoln, which comprises the penitentiary and the reformatory, has increased from 1,030 to the current population of 1,329. In my budget, we are suggesting to raise funding to a base of 1,500 on average monthly population at the two Lincoln facilities and 100 at the Women's Institution at York.

In the Lincoln institutions, the budget provides for further upgrading of medical staff which has been already vastly improved to 29 at present. That represents a doubling of professionals in this area in the last four years.

In penal capital construction, we have recognized the third-year phased funding for the Lincoln medium-minimum facility and provided for 64 needed additional beds to be employed as a chemical dependency unit and additional residential areas.

For the Omaha reformatory-type unit, we have provided for the second year appropriation as planned as well as an additional \$504,000 required to overcome foundation problems and other heretofore unknown costs.

To move ahead and expedite our overall penal capital construction needs, I have recommended \$2.3 million for the initial construction and renovation of the maximum security facility which is estimated to cost a total of \$16.8 million for this project alone before completion. Yes, that is a lot of money, but unfortunately, there are no alternatives. These kinds of required state expenditures now and in the immediate future should be a further sober warning when we consider our expenditure patterns and review ever-increasing demands of subdivisions for further commitments of state revenue.

To meet the ever-growing needs for recreation and improvements in our state park systems, I have approved a 10% increase over last in General Fund support for the Game and Parks Commission. In addition, \$350,000 in Public Works Employment Funds have been delegated to that agency

for park improvements. This program should be sufficient, and I wish to declare my opposition to the proposed tax on soda pop. If there are additional needs in this area, why should not the Legislature address the problem as I have from the General Fund this year and next. I do not see the reason or need for this new tax.

Nebraska's water resources is a most important subject of this session, and I suspect the next one.

There is no easy solution to this pressing problem. The Governor generally agrees with the solutions suggested by the chairman and vice chairman of your Public Works Committee, whom I consider two of the best informed and trustworthy experts on water related matters in the state. I am sure that this committee will not be stampeded into any overt action and will carefully and thoughtfully consider all aspects of this important issue.

Provided for in the executive budget are funds to expand the field staff of the Department of Water Resources to meet growing needs in this area and funds to institute a five-year expansion plan of the department's stream gauging program

Again this year, I am recommending another \$1 million for a natural resources development fund to be employed by the Natural Resources Commission. With this addition, the fund will reach nearly \$4 million which can be well used in many resource development projects.

This, then, is a general overview of my budget recommendations to the Legislature. It is now "open season" on this yearly proposal that always infuriates some and satisfies none. I assure you that it is an entirely workable document and was completed only after hours, days, weeks, and months of intensive study, consultation, objective criticism, negotiations and renegotiations, and I particularly thank the hardworking Budget Division of the Department of Administrative Services for their efforts. In preparation of the budget recommendations, we do not claim exact perfection. It is introduced for your consideration and hopeful approval in general.

The executive budget is now in your hands for help in performing your yearly most important duty, the authorizing of expenditures of state government for the next fiscal year.

Thank you for your attention.

The committee escorted the Governor from the Chamber.

REFERENCE COMMITTEE REPORT

LB Committee
479 Appropriations

(Signed) Richard D. Marvel; Jack Mills; Douglas Bereuter; Larry D. Stoney; Steve Fowler; Roland Luedtke; William E. Nichol and John S. Savage.