

EASE

The Legislature was at ease from 9:50 a.m. until 10:00 a.m.

ESCORT GOVERNOR

The committee returned and escorted Governor Exon to the rostrum where he delivered the following State of the State Address:

Budget Address
State of the State Message
Legislative Chambers
Lincoln, Nebraska
February 10, 1978
Governor J. James Exon

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

Thank you for interrupting your deliberations to allow me the opportunity for the eighth and last time to present my budget recommendations and State of the State Address to you and the people of Nebraska.

Seven years ago, I stood here for the first time. My philosophy of government has not changed, nor has my approach to our most important annual duty...the development of a workable and balanced state budget that meets the real needs of our state and its proud and progressive people.

Seven years ago on February 4, 1971, at this same place, I said "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.' "

Once again I am back with a budget that, if generally accepted by your body with its restraints and constraints, will allow us to...yes, you hear it once again and I hope the message, if not the identical phrase, will follow from the next administration...to hold the line on existing state tax rates, which were reduced effective the first of January.

Before I proceed with my specific comments on the budget recommendations, let me address the State of the State.

I am pleased to report that it is good despite serious difficulties with agriculture prices. This condition portends slower economic growth

than we could otherwise expect. We are hopeful that we are on the road to at least partially correcting low farm prices brought about by years of less than realistic planning at the national level. However, this will not be a good income year for our farmers and ranchers which is another reason for extreme prudence in spending and the launching of any substantial new programs that fuel expenditures.

The positive side of the agricultural ledger is the change to limited returns generally on investment in cattle operations, some stability in swine prices, and the generally abundant harvest, except in the drought area in southeast Nebraska and scattered snow damage elsewhere. With ever-increasing expansion of irrigation we produced a record crop of corn last year, raising nearly 80% of that crop on irrigated acres. This effectively makes most of the annual Nebraska corn crop drought proof. Wise use of our water resources, which I will address later, is of course important to insure this asset.

Another good news side of the picture is that, despite nagging unemployment in some specific areas, we have reduced unemployment from 5.0% in 1976 to 4.1% last year. We currently have a record 686,700 people employed in Nebraska, 16,000 more than a year earlier. While it is little solace to those without work, we are healthily below the national average of over 6.0% unemployment. 584,200 are now employed in the direct non-agricultural sector of Nebraska's economy, another new record. We experienced still another good year in industrial expansion with the opening of 54 new plants, the expansion of 83 existing ones, and the creation as a result thereof of an estimated 3,776 new jobs.

Nebraska employers, because of our administration's efforts to insure only proper claims payment through the creation of a special statewide audit team and with the improvement in the economy, will recognize a cost savings for unemployment insurance rate reductions of \$5 million for 1977 and an additional \$4.6 million in 1978.

Population-wise we continue to expand at a steady but healthy pace with a percentage increase of 4.5% over the 1970 census, outstripping the rate of growth of all our neighbors except those impacted primarily by energy related expansion.

By careful and prudent management of the state's financial resources, we are in a sound position. The General Fund balance as of January 31 was \$44 million, some \$39 million in excess of the same figure a year ago of only \$5 million.

The overall State of the State therefore is good. Let's now look to the future and how we can work together to best insure continued success.

The Department of Revenue projections of receipts for the first seven months of this fiscal year are right on target. Despite protestations by some to the size of the state tax rate reductions effective January 1, 1978, that decision made last November was obviously correct in the interest of taxpayers.

We anticipate, as predicted in November, no cash flow difficulties or state tax rate increases provided you accept my recommendations and restrictions presented today.

The Legislature, of course, can exercise, in your exclusive appropriation authority, realignment of these recommendations. My suggestions allow you minimal additional expenditures without state tax rate increases which I shall do all in my authority to prevent. My call is for a minimum of a 5% reserve and if this can be increased by legislative action, while not crippling vital functions, it would be commendable.

Nebraska's sound fiscal health then is assured if you will agree to follow the blueprint for restrained spending and action outlined today.

In my recommendations you will find \$2.4 million to begin phased assumption of county medicaid costs which, if coupled with my proposed LB 899 to place an effective lid on spending, would begin to assure some property tax relief. It is my request that you reach your decision first on LB 899. If you fail to pass this measure, than I suggest that pouring further millions of state-collected dollars to subdivisions without seriously addressing the probability of real estate tax relief is meaningless and fiscally irresponsible. Over half of all state collected funds are already flowing back directly to aid subdivisions or individuals. Since state aid was instituted ten years ago, with the advent of the sales and income taxes, supposedly for real property tax relief, we have seen no reductions, in property taxes, only substantial increases.

LB 899 is further needed to assist local officials in holding down real estate taxes especially in view of the current reappraisals which will have the effect, in some jurisdictions, of escaping present ceilings designed to control spending.

It is appropriate to point out here a fact that still seemingly is not universally known or understood. The State of Nebraska does not assess, collect or receive a single penny from real or personal property tax collections. Those taxes are all local and are expended there in addition to the multimillions that the state sends back at ever-increasing amounts each year.

I note the legislative interest in the difficult task of property tax equalization. Your input and constructive suggestions are welcome. As you ponder this new initiative, perhaps you should first shoulder the responsibility assumed by your colleagues in all other legislative bodies in all other states and exercise the duties of setting the sales and income tax rates each year after you discharge your sole authority for authorizing expenditures, which directly establish those rates.

The five member state board of equalization must deal again with equalization of real property values. Unfortunately, the board does not have all the tools, facts or figures to accomplish that difficult job fairly and equitably. In the first place, when the Legislature mandated county-wide reappraisals it built in inequities and guaranteed unfairness in overlapping taxing districts when the law directed reappraisals take place in different counties in different years. Board action in attempting to equalize and change county assessments have been overturned three times in the courts. There is also the current problem in at least one county where it is apparent that the same value and class of property in one part of the county is assessed differently from that in another part of the county. In this instance the board is powerless under the law to act. Attempting equalization between counties under such circumstances presents the problem of compounding unfairness. We continue to work cooperatively with county boards and assessors who have the first responsibility to resolve this difficult assignment.

Last year the Legislature attempted to be helpful by the passage of LB 131 which mandated all counties meet re-evaluation requirements simultaneously by January 1, 1978, with the proviso that those failing compliance lose 10% of personal property tax reimbursement as a penalty. There now seems some confusion as to the interpretation of that act, whether the wording requires actual reappraisal by January 1 or only the finalization of plans for same, and whether or not the measure allowed sufficient time for the counties to comply. There is speculation that some may only be awaiting the imposition of the penalty provisions of LB 131 to initiate expensive court action again.

In its deliberations in this area, the Legislature might wish to consider amending and clarifying its intent on LB 131, in an effort to be helpful to the Legislature in this regard and because of your interest, the Tax Commissioner has requested an Attorney General's Opinion on LB 131 which will be made available to your committee studying equalization.

Turning to the budget itself, you will find that I have reduced agency requests by \$62 million from the total requests of \$577 million to hold

the line on the just reduced tax rates. Yet inflation takes its toll on state government as well.

Despite the \$62 million reductions I have made from agency and department requests for operations and state aid next year, total General Fund expenditures including \$15 million from the Revenue Sharing Trust Fund are recommended at \$515 million. To that recommended expenditure, we must add \$26.3 million for a 5% reserve, \$6 million for new capital expenditure items, \$6 million for building maintenance as provided for by LB 309 of the previous Legislative Session, and \$13.7 million for second and third year funding of capital items previously approved by your body. This brings total General Fund obligations and reserves to \$552 million.

Again, it should be recognized that of each dollar collected by the state 52.3 cents goes directly back to aid subdivisions and individuals, 24.4 cents to higher education, and only 23.3 cents for all other customary functions of state government.

The overall largest dollar increase in expenditures is the amount needed to compensate our dedicated state employees to meet their personal budget and inflation problems. My recommendation is to provide funds for an average increase of 6 1/2% in state salaries with a return to a realistic and structured pay plan that was adopted under my suggestions in 1973, but abandoned since. Good personnel management as practiced in private industry cannot survive with a piecemeal, change-every-year approach. Additional funds are provided to cover increased costs for the standard hospitalization insurance, and I propose rewarding especially deserving employees with merit increases through vacancy savings.

In order to further assist that portion of our people, the senior citizens, who are hardest hit by inflationary pressures because of their general reliance on fixed incomes, I am providing an additional appropriation of \$5 million for homestead exemptions. This will raise total state homestead contributions to local government to \$26 million yearly and will include credits to those qualified also for mobile home tax relief. In my opinion this program can best be accomplished through enactment of LB 407 now before the Legislature. Should you not enact my proposition to begin providing real estate tax relief by phased adduction of county medicaid costs, I recommend increasing homestead exemptions in LB 407 further by that \$2.4 million figure, to a total of \$7.4 million.

My budget includes maintaining \$55 million for state aid to local education which is the proper appropriation until the voters act on the referendum of LB 33 in November. I strongly urge that your only

action on school aid this session should be to correct inequities with regard to distribution which is grossly unfair to the majority of school districts as presently structured.

Higher education is important to Nebraska and to Nebraskans. We have always funded it well by any realistic regional or national yardsticks. In fact, we have been leaders in most key barometers of General Fund appropriations. The university and state college systems have been treated similarly with combined increased funding over the current year of 7.1%. While far short of their requests, I have provided increased General Fund support for the university from \$101 million to \$107.7 million, and for the state colleges from \$16.0 million to \$17.6 million. You will note the lump sum state General Fund appropriations recommendations in my budget document for the university are in keeping with the recent Nebraska Supreme Court decision.

The state's contribution to the community technical college structure will increase to \$15.1 million from the current fiscal year level of \$14.1 million.

The increasing probation population is causing severe strains on our court and probations systems. In an effort to alleviate this situation, I am recommending that pilot, pre-trial diversionary programs be established in selected counties for the purpose of providing the judiciary with alternative placement programs.

Maintaining this administration's opposition to employ unneeded and expensive bonded debt financing for roads, we still had another good year in 1977 including \$105.4 million in construction and improvements. This was accomplished again with a pay as you go approach. In addition to a record road improvement and construction program since 1971, by November of 1978 we will have reduced the inherited \$19 million bonded debt for roads per schedule by \$8 million to \$11 million. In addition, we will have also unfortunately expended \$7.4 million during the same period for interest.

To solve the strength problem that exists in our national guard, I am introducing a bill that will provide the Nebraska National Guard with \$500,000 and the tools they need to maintain adequate strength. I am recommending that the Adjutant General be given the authority to make incentive payments to individuals only when the strength of a particular unit is low enough to adversely affect its state or federal mission.

The continued manageable development and protection of our natural resources and environment is and must continue to be a prime priority for Nebraska.

Our fish, wild life, and state parks systems are further provided for by an increase of 15% or \$680 thousand over last year in General Funds and total additional \$1.2 million in the all funds budget of the Game and Parks Commission.

We have worked closely with and coordinated activities of the Department of Water Resources and the Natural Resources Commission. Again I am providing another \$1 million contribution to the Natural Resources Development Fund, second year funding of our expanded stream gauging program and to maximize the benefits from the data gathered therefrom, you will find created a new position of State Hydrologist.

In the area of water development and conservation, I am proposing two relatively new programs. First, under the Natural Resources Commission and in cooperation with the Department of Water Resources is provided \$100 thousand in 1978-79 for a comprehensive state water plan which will require continued funding hereafter. This approach will give Nebraska the needed information and guidelines for continued sound water management and is preferable to hasty decisions without proper information which we may later regret in groundwater ownership and trans-basin diversion.

Second, I am suggesting your approval of \$185 thousand in new funds for a technology transfer program under the Department of Water Resources. By marshalling the combined talents of several individuals and agencies, Nebraska has become a leader in this vital area by bringing the capacity of our statehouse computer to the aid and assistance of family farmers in a very wide field. Through agnet, among its many workable and useful concepts, is the major technology breakthrough in irrigation scheduling. Estimates based on actual operations by the Institute of Agriculture and Natural Resources shows that full development of this process could save yearly over \$47 million in energy, \$38 million in nitrogen, and up to one and a half billion gallons of water. I am sure that the Legislature will join with us in the sponsorship of this program.

I was hopeful that my detailed recommendations on penal matters could be included in today's discussion. That subject necessarily must be delayed and will be sent to you later in a special message. My decisions are dependent upon the outcome of our continued negotiations with Omaha city officials on the medium-minimum facilities.

Allow me to turn now to the highly important subject of human services and the delivery system of this state responsibility which has not only significant budget impact but even more importantly is critical to our state's needy and less fortunate.

As Nebraskans we can be proud of our commitment in this field and certainly our progressive policies are no more apparent than in mental retardation. We shall continue our policies to improve facilities and programs at the Beatrice State Home while continuing our strong, unprecedented, and national leadership role for community-based facilities. The community-based programs have seen the largest percentage increase in state funding of any on-going state activity. Since 1970 we have dramatically increased state funding here from only \$280 thousand in fiscal 1970-71 to \$6.9 million recommended for the next fiscal year. In total funds, during the same period, we have gone from \$2.1 million to \$18.7 million.

For the next fiscal year we have maintained on-going support for the basic or continuing community-based programs and authorized additional expenditures of \$840 thousand unexpended accumulated cash balances. If written agreements can be worked out with a few regions to expedite the transfer of Beatrice clients in sufficient numbers of individuals beyond what has now been agreed to, I may make subsequent requests to the Legislature for this specific purpose.

My recommendation for the next fiscal year for the mentally retarded through the Department of Public Institutions includes an additional \$1.5 million earmarked for improvement and expansion at Beatrice and the regional programs, distributed on the basis of number of clients that can be successfully transferred to the local services which is a fundamental goal. In addition, \$1.5 million will be required over the next two years for capital construction, remodeling and meeting federal standards at the Beatrice campus. Further, two-year funding in the amount of \$1.4 million is necessary for 5 new cottages there.

The Veterans Aid Trust Fund stands at \$10 million. Despite my suggestions last year, the Legislature failed to raise this to \$11 million. Therefore, I am again requesting \$1 million additional be funded for fiscal 1978-79 and plans for a like addition the following year to keep our commitments to our Nebraska veterans in need.

There is no more important area of human services than our health delivery systems, still deficient in some rural areas, especially medical professionals.

Last year, among other successful action initiatives, we established a Commission on Rural Health Manpower to provide recommendations on how to get more doctors to areas where they are needed. The Commission has made progress and further sound recommendations which should be implemented. I ask you this year to enact the following four measures:

1. Establishment of a state student loan program to assist those students who will pursue a career in rural medicine in Nebraska.

2. Creation of a position in the Department of Economic Development to assist rural communities in developing health services, and to act as a small community advocate among state, federal, and local agencies.

3. Provision of additional funds to the State Health Department for an expanded educational effort about career opportunities in rural medicine.

4. Creation of a state-reimbursed residency program to familiarize doctors-in-training in Nebraska with our rural communities.

We seem to have the needed attention and cooperation now of the medical school and your action as requested will best assure continued progress.

Despite federal dictates that dramatically increase costs, we are again faced with declining federal match in our aid for dependent children and medicaid programs. Since F/Y 1973, federal match has declined from 58.5% to 53.5%. In dollar terms, in excess of \$2 million State General Fund dollars must be added to maintain current service levels in these programs. Further, the recent increase in federal minimum wage will add approximately \$4 million dollars to nursing home costs under the medicaid program. Under pressure of declining federal match, changing federal regulations and requirements, increasing medical costs, and increasing income support levels and numbers of recipients - in part also due to the action of your body over my vetoes on A.F.D.C. - the public assistance budget of the Department of Public Welfare shows a necessary increase of \$8.6 million. As startling as that figure is, and as much as I struggled to reduce the increase, it is my opinion that to act responsibly to those Nebraskans, young and elderly alike, we have no alternative but to proceed as recommended.

I direct your special attention and request essentially new funding in the amount of \$320,000 for expanded service programs for very young children with special problems. Over the years, I have supported funding children's programs for special education, mental retardation and crippled children. But some of the children have gone unserved because their disability has a label different from what was funded. These \$320,000 will help to develop services for children who have infant disorders such as cerebral palsy, chronic asthma, and other problems that require early intense stimulation of the motor, reflex and neurological systems, thereby thwarting the crippling effects of some diseases. We feel that providing these needed expanded services

through the existing facilities of the Department of Welfare is wise at this time rather than saddling such responsibilities on the school districts.

Two of the Legislative proposals I share with you today directly affect the Department of Public Welfare. One of these bills would improve the definition of a crippled child, making the statutory definition consistent with federal guidelines and removing the specific labels of crippling diseases.

The other bill would change the name of public welfare to the Department of Human Services, which is a more descriptive term of this agency's current functions.

The capital construction budget is essentially limited to previously authorized construction and necessary renovation and required safety improvements with no major new starts.

The deferred building renewal act of last year provided \$4.4 million to begin a deferred maintenance program for all state-owned buildings. To insure the continued success of that program, my capital construction budget recommends that appropriation be increased to \$6 million. I am also recommending that \$750,000 of that amount be used specifically to initiate the funding of projects designed for the removal of barriers to the handicapped in state buildings. In this regard, I am pleased to report that the State Building Commission approved final plans last month to solve the handicapped entry problem to the Capital Building by renovation of the ground level north entrance.

In closing, I would like to emphasize that once again I have presented a carefully considered and balanced state budget that allows us to meet legitimate needs without increased taxes. The document is now in your hands for whatever changes or amendments your body deems proper as the exclusive final authority on appropriations. I shall be reviewing your efforts and certainly wish to cooperate.

Once again your recognition is urged of the necessary constraints under which we must proceed. In budget making the parts and how they fit together are the integral portion of the whole. Caution should be exercised on early passage of so-called "A" bills, other spending or appropriation measures that could later "break the bank" and force state tax increases which I assume we will want to avoid. Good luck and God speed in your deliberations. Thank you!

The committee escorted the Governor from the Chamber.