

Mr. Lamb requested a record vote on the Lamb amendment.

Voting in the affirmative, 17:

Abboud	Barrett	Beyer	Carsten	Clark
Goll	Hefner	Higgins	Johnson, L.	Kahle
Lamb	Lundy	Nichol	Peterson, R.	Remmers
Sieck	Wagner			

Voting in the negative, 26:

Beutler	Chronister	Cullan	DeCamp	Doyle
Eret	Fenger	Goodrich	Haberman	Hannibal
Hoagland	Jacobson	Kilgarin	Labeledz	Landis
Morehead	Newell	Pappas	Peterson, H.	Pirsch
Rupp	Schmit	Vickers	Warner	Wesely
Wiitala				

Present and not voting, 2:

Chambers Von Minden

Excused and not voting, 4:

Fowler Johnson, R. Johnson, V. Marsh

The Lamb amendment lost with 17 ayes, 26 nays, 2 present and not voting, and 4 excused and not voting.

Mr. H. Peterson moved the previous question. The question is, "Shall the debate now close?"

Mr. H. Peterson moved for a Call of the House. The motion prevailed with 20 ayes, 19 nays, and 10 not voting.

The motion to cease debate lost with 21 ayes, 20 nays, and 8 not voting.

The Chair declared the Call raised.

MOTION - Escort Governor

Speaker Nichol moved that a committee of 5 be appointed to escort the Governor to the Chamber to deliver his State of the State and Budget Message.

The Chair appointed Messrs. Carsten, Hefner, Warner, Mesdames

Higgins, and Labeledz to serve on said Committee.

The Committee returned and escorted Governor Robert Kerrey to the Rostrum where he delivered the following State of the State and Budget Address.

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

All too often, I believe, we view budgets as morasses of figures and decimal points, completely divorced from the people and legitimate needs they serve. I characterize this budget as a symptom of and response to a series of pressing problems and needs. It is not accidental that the demands for various forms of public assistance have increased; the economy currently warrants those demands. It is not by coincidence that education requires more resources; the information explosion and a renewed commitment to serve special education students are but two reasons. It is not by some quirk of fate that agriculture needs assistance; it is by virtue of continually depressed commodity prices and vigorous domestic and international competition. It is not without reason that energy specialists call for funding; the spectre of energy dependence looms large. I could continue with this list. However, my point is simple. We must not allow ourselves to become frustrated with this budget's complexity. Great needs demand a commensurate response. And sometimes that response must be reflected in a budget.

While delivery of a budget message by the Governor of this State is prescribed, the form of the message is not. Today, I will depart from merely enumerating dry facts and figures. Although I cannot abide by the old speaking advice "Be brief and be seated", it is my hope that after this message you will have gained an understanding of the chronology of events culminated today, and the rationales behind them.

First, let me review the budget history which has led to current conditions. The original General Fund Budget proposed for fiscal year 82-83 was \$756 million. During the 1982 regular session, and the November, 1982 special session, sweeping across-the-board reductions and one-time savings measures cut the budget to its present level: \$718.3 million.

Last year, Nebraska had to supplement the General Fund using interfund borrowing to maintain a workable cash flow. Similarly, state employee salary increases - generally effective July 1 - were postponed until January 1, and capital construction expenditures were delayed until the next year.

In spite of these efforts, our revenue situation deteriorated. A number of plausible explanations exist, chief among them the failing health of the economy, federal tax cuts which slashed Nebraska's revenue base by over \$100 million, and suspect economic assumptions by the previous administration leading to questionable financial planning.

Unfortunately, many of the actions taken were not in fact

reductions. They were merely stop-gap deferrals. These deferrals, in combination with the inception of new programs and unruly, uncontrollable growth in existing programs, presented my office with fiscal year 1983-84 commitments in excess of \$810 million, excluding salary increases for state employees. The single largest new program was the proposed state takeover of County Welfare - amounting to an additional \$22 million - slated for July 1st.

This was the revenue and budgetary situation which greeted my administration as I took office less than one month ago. It was a situation greatly changed from that which normally greets a new governor. Now, I want to familiarize you with the process we used to arrive at the conservative budget I present today.

The process, as I'm sure you will note, was not one of facile answers, easy maneuvers, or evasions. Instead, it was a process of learning, searching, and realistically evaluating. Aware of this task's magnitude, I selected a budget team of dedicated and hard-working individuals, each of whom contributed considerable knowledge and expertise.

We began this difficult and strenuous task immediately after the election. And, although we certainly approached the job with gusto, we did not, as the saying goes, "only go around once". We went around at my office, at the Department of Administrative Services, and at the Governor's Mansion. We met during the morning, afternoon, evenings, and weekends.

I began by looking at the revenue situation. The budget cutting action taken by the Legislature at the November special session was based on the assumption that the State Board of Equalization would set the income tax rate at 20% of Federal liability starting January 1, 1983.

As we know, the Board failed to set the income tax rate at 20% and failed as well to adopt one set of revenue projections which could guide us in clear, sound budgetary decision making.

My first directive to the new Tax Commissioner was to develop one set of revenue guidelines using the best professional judgement of the Department. It is upon these revenue estimates that I have based my recommendations to you today.

The 20% income tax rate assumed by the special session appears to me to be a ceiling above which we should not go. We cannot tax our way out of this problem. My budget recommendations are based on the passage of LB 59, which I support and which I will sign, and the maintenance of the current sales tax rate of 3 1/2%.

The revenue generated from these tax rates using the best professional judgement of the Department of Revenue is \$748,853,241. The budget I present today will fit within these revenue constraints, assuming a June 30, 1983 unobligated balance of \$13,962,000 and a limited number of cash lapses.

The job of revenue analysis does not end with the presentation of this budget, however. I have directed the Tax Commissioner to continually review and examine the economic trends in our State in

order to determine at the earliest point if actual revenue receipts will not meet these projections.

This is necessary because these revenue projections are based upon current economic conditions and the hope that our economy will be somewhat improved in 1983-84.

But we should be prepared for further deterioration. This is not a budget to build on; if anything I urge you to look for additional reductions.

The PIK program could adversely affect 1983 revenue. Farm income could stay low, and unemployment could get worse.

I am, therefore, asking that you do the following:

1. Extend the authority for Interfund borrowing to June 30, 1984.
2. Be prepared for further reductions in appropriations if our revenue declines sharply.

Looking at the budget side, we began after the special session by constructing a background, using in-depth briefings on each state agency and program. Conversant with information and cognizant that we were squarely facing a possible budget commitment of \$810 million and realizing that Nebraskans will not accept a tax rate in excess of 20%, I set out to identify programs and services which could be cut back or cut out.

I must point out that I was guided in this matter by some very practical principles. To put it succinctly, easy is not necessarily better. The illusion of the relatively simple "across the board" method has been exhausted because it has not been able to withstand the acid test of reality.

With that philosophy in mind, lists of possible reductions were prepared by the Budget Office staff. The goal was to bring our 83-84 budget to a level which could be supported by a reasonable tax rate and realistic revenue projections. No item escaped review; no sources of ideas - inside and outside state government - went untouched.

After engaging in the schedule of meetings I mentioned earlier, the Budget Office staff and I again reviewed every agency, every request, and every funding level recommendation. In so doing, we achieved our goal. We brought the budget to a level which can be maintained by estimated available revenue and still provide for a modest salary increase to our State Employees.

This budget contains total appropriations of \$746,997,608. The estimated revenue, after allowing a 3% reserve, is \$748,853,241. This leaves \$1,855,633 for funds to cover increased health insurance costs, claims against the state, "A" bills, and budget adjustments.

It is a lean budget; it is a realistic budget. It takes into account certain commitments and certain limitations. But most importantly, it is a forward-looking budget we can all live with. I am convinced that an austere budget today will accrue for us great benefits tomorrow.

To develop a supportable budget and to produce a salary increase required that we pare over \$63 million from the \$810 million base for fiscal year 1983-84.

I very much wanted to offer a full year pay increase to State Employees. As you know, a greater percentage increase could be achieved by delaying the effective date. However, this approach would only postpone the full funding until the next budget year. I was determined to locate funds for a salary increase which would go into effect July 1. I am still not completely satisfied, but I know I have recommended a fiscally prudent amount - an amount that will not present funding problems for the next budget year. We must recognize that secure jobs and salaries in the future hinge on the creation of financial security today.

Let me add that our State Employees possess skills and knowledge we cannot afford to lose. They make State Government work, with their dedication, professionalism, willingness to improve skills, and genuine desire to serve Nebraskans. We must encourage them to stay and persevere.

In my quest to trim 63 million from the budget I first examined programs which could achieve their goals or deliver their services without a separate staff or agency. For instance, the Forms Management Program can and will be implemented at the agency level. The State Safety Program can operate under the auspices of each agency, whose responsibility it is to provide safe working conditions. The Risk Management Program can and will be assigned to the Department of Administrative Services and the Department of Personnel. The newly-created Foster Care Review Board's responsibilities can be assumed by a responsive Department of Welfare. The Cancer Registry can be handled on a volunteer basis by our hospitals.

Second, I examined programs or forms of aid which are not based on an identified need standard. This review resulted in a call to eliminate the general Homestead exemption, aid to the Civil Air Patrol, and grasshopper control aid in the Department of Agriculture.

Third, I examined programs which might be practicable given improved economic conditions, but which cannot be accomplished under existing financial constraints. This entailed a review of the take-over of county welfare, new construction slated for the coming fiscal year, increasing state aid to schools, cities, and counties, issuance of new license plates, and general fund support for local school driver's education. My review took me even to small budget items like the gift shop in the State Capitol.

I discovered that it is impossible to fund state assumption of county welfare in the 83-84 budget year. Thus I am introducing legislation to defer such a take over for one year. Of course, we all realize that this move is only a hiatus and not a efficacious solution. Put briefly, we face a void in terms of funding this change. Simply increasing the sales and income tax is unacceptable as these moves would further erode Nebraska's ability to adequately support other obligations.

For these reasons, I am calling for the formation of a Special Task

Force to address the matter of funding this change. The task force will consist of representatives from this Legislature, County Government, the State Department of Welfare, and the general public. I will request that this task force develop a funding plan for LB 522 other than raising sales and income tax rates. This plan could be an amalgamation of additional state revenue, achieved through the closing of tax gaps identified by review of refund, exemption, and collection fees policies, and a reduction in state support for programs administered primarily at the county level. Such programs include community mental health, alcoholism, mental retardation, and aging services, as well as the county road program.

I will expect a report from this task force on or before March 15. If a reasonable, responsible funding plan has not been developed by that time, it may be necessary to seek repeal of LB 522. But let me emphasize that I will continue constructive efforts toward compromise which can make possible an equitable implementation of this transfer for all.

My review led me to a variety of other programs and projects.

I discovered that implementation of a new welfare computer system will have to wait until a more complete picture of long term costs as opposed to potential savings is available.

I found that field staff in revenue and economic development must be reduced, with more of these services being provided by central staff.

I found that 1983-84 is not the year for the Family Support Program. It will not be funded in the next budget year.

I found that the size of the Commission on the Status of Women should be reduced from 30 to 12, saving revenue, and bringing the Commission in line with the size of similar commissions.

I found that the State Wayside Areas should be supported by the Department of Roads rather than the Game and Parks Commission. These areas are used most frequently by the traveling public, and seldom as recreation areas.

And I support repealing the dedication of one cent of the cigarette tax for cancer research. Although important, this program must compete on its own worth with other needs rather than relying upon earmarking for its funding.

Finally, although this budget appears abstemious in its adjustments for aid to local governments and individuals, half of the total increase is in aid. I ask supporters of these programs to be patient and understanding. We need time to restore our state fiscal house to order without damaging vital state services. With cooperation, we will succeed.

Still, additional funds are provided in some cases. For example, I added over \$7.5 million to pay the full FY 83-84 cost of the 5% salary increase made in January. Likewise, approximately \$9 million was added for a 3.5% salary increase effective July 1. The Department of Education Budget was hiked \$6 million to fulfill our commitment to special education students and over \$1 million to serve wards of the

court. The penitentiary in Omaha will open at an additional cost of roughly \$3 million. Public assistance in the Welfare Department will increase over \$10 million. And a \$1.0 million increase will be provided to Aid to Aging Programs.

Clearly, while all programs were thoroughly scrutinized, some received less money and some received more money. These are areas in which we have commitments to fulfill - in which we must at least maintain and, in some cases enhance, the quality of service. These priority areas include the Departments of Agriculture and Economic Development, Higher Education, Corrections, Special Education, Public Assistance, and such community based services as Aging.

In my inaugural address I indicated that economic development was a priority of this administration. In kind with other state economies, ours has been pinched by a national recession. At the same time, we are witnessing a realignment of the U.S. and the world economy. Other states and communities are responding with zeal as they launch competitive drives to attract vital new industries. Nebraska must respond with the same enthusiasm. The Arthur D. Little report to our Department of Economic Development suggests several priorities: We must establish that the manufacturing labor force is available in adequate numbers with adequate skills. We must statistically demonstrate our fine labor/management climate. We must illustrate for industry our productivity and strong state work ethic.

This budget can do much for economic development. To that end, we have concentrated funds on the industrial development division of our Department of Economic Development. To maintain our industrial development marketing effort, the deficiency bill will appropriate an additional \$138,903 for FY 82-83. The 83-84 budget reallocates an additional \$125,000 for this important budget program.

Also, this budget provides \$50,000 for a Food Research Center, which can assist us in advancing the food processing industry in Nebraska.

We must also implement the Constitutional Amendment which allows special development financing for commercial developments in blighted areas. Additional legislative proposals will be forwarded to you by the end of this month as part of a legislative package designed to improve the state's economy.

One key to developing this plan is to put to work as soon as possible a new Director of Economic Development. As I have told the Economic Development Advisory Committee, we cannot delay in this matter. I sincerely hope that we will have a new director within 10 days, so that he can meet with Rob Raun, the Director of Agriculture; Paul Amen, the Director of Banking; and representatives of business, labor, and the University. We must begin a dialogue on proposals to move this state forward.

Building a trained workforce is key to any economic development plan. The Federal Jobs Partnership Training Act can assist us in our endeavors by forging a strong relationship between business,

government, labor, and education with a view to training and placing economically disadvantaged and dislocated workers.

It is also critical that we give attention to our corrections system. Continued growth in State prison populations has put a tremendous burden on existing facilities. The budget for corrections reflects this strain.

In addition to providing the necessary funds for food and utilities, we will this year see the new Minimum-Medium Security Facility in Omaha go into operation. The 240 new beds it houses will help alleviate overcrowding in other institutions. However, first year operating costs at the facility will add over 3 million dollars to this department's budget. We cannot ignore this need.

We have similarly assigned considerable importance to education in this state. Demands on our Technical Community Colleges, State Colleges, and University have increased in proportion to the information explosion and rapid rate of social change. This budget provides 9.1 million additional dollars for higher education, corresponding to a 5.8% increase to State Colleges, a 4.8% increase to the University, and a 4.3% increase to Technical Community Colleges. I think you realize that these increases, occurring in a very tight budget, represent my strong commitment to education. I have simultaneously called for a Budget increase of \$6,341,575 for special education so that we can further our state reputation as a leader in innovative special education services to elementary and secondary school students.

We also have an abiding commitment to community based aging services. That commitment assumes even greater significance when we realize that the number of elderly in our population is increasing. We now seek ways to avoid costly institutionalization and to promote services which keep our elderly active and productive.

Last year, this Unicameral - to its credit - overwhelmingly passed landmark legislation for our elderly: LB 404. As a result, we have finally defined in Statute the structure for community senior citizen programs. State support for these services was increased last year and a goal of an additional \$2 million for 83-84 was set. I had hoped to meet that goal but could not within the terms of this tight budget. I have, however, included an additional \$1 million for these services and I will ask Helen Boosalis, the next Director of the Department of Aging, to make optimal use of these monies.

There are still other areas which require a strong budgetary commitment. We are blessed with a bountiful natural resource base. We have developed those resources to build and maintain a strong agricultural economy. In 1966, for example, we irrigated 3.6 million acres in this state. In 1981, we irrigated nearly 8 million acres. Today, we rank third nationally in total irrigated acres.

Clearly, water development will continue to play a pivotal role in our economic development. There is a need, I believe, for additional irrigation projects. However, as the federal government shrugs its commitment to water resource development, the state must intervene

and fill the gap. We must carefully plan our water development, arrive at a proper course of action, and then move to fund and execute our plan.

Of course, water and soil conservation must be considered. Our natural resource districts have made a substantial commitment in this regard, and our Institute of Agriculture and Natural Resources is a bold leader in conservation technology. Unfortunately, while the NRD's expend approximately \$11 million every year on soil and water conservation, the State responds with only \$1 million. I am asking that the Unicameral begin to address this disparity by providing an additional \$400,000 to conservation practices for FY 1983-84.

This represents only a small step in the proper direction. We must prepare to commit still larger amounts during the next four years to the proper utilization and management of our precious natural resources. Our future may well depend upon that commitment.

Agriculture will be equally challenged in the next year, evidenced in part by the crisis now facing our sugar beet industry. At present, one of every four employed Nebraskans owes his or her job to agriculture - from Omaha to Scottsbluff; from the Missouri River to the Panhandle. That fact makes our obligation to agriculture even more critical.

The Nebraska Department of Agriculture will take an active role in shaping state agriculture policy. We have sufficient human and institutional resources to turn the 1980's into years of opportunity rather than defeat for all Nebraskans.

To that end, I will ask our Director of Agriculture to work closely with the commodity groups and the check off boards to develop our international markets and respond to national farm programs. The Director will work closely with the University and Agribusiness. He will be an important advisor on natural resource development and will work with the appropriate agencies and organizations in this area. In fact, this month I will send him to Washington to testify on the Federal Budget and make certain that Nebraska's agricultural concerns are heard.

Roads and capital construction warrant our consideration as well. To continue agricultural and economic development requires aggressive programs of road construction. I am therefore supporting the continuation of the road program anticipated when the variable gas tax was adopted in addition to utilizing increased federal aid gained by a 5% increase in the gas tax.

In terms of capital construction, we must maintain our existing buildings and upgrade older buildings with a view to greater energy efficiency. Thus I am requesting \$2 million for the LB 309 Task Force, and proposing that \$1 of the \$2 million come from the severance tax. These monies will be used for building maintenance and energy conservation. Additionally, the capital construction budget contains \$50,000 of state General Funds for regional veterinary school planning. Of course, we will need a firm federal commitment coupled with long-term regional support in order to proceed with this project.

As difficult economic times dictate, I have seen a need to increase dollars for public assistance through the Department of Welfare. We must ensure that the needs of the elderly, blind and disabled are met by the State Supplement Program, for example. We must guarantee that some 4,500 children receive treatment for crippling conditions through services for crippled children. Our responsibility to the recipients of public assistance must not be taken lightly. It is an obligation which must be met.

Finally, we must attend to the ever-present issue of our energy situation. We cannot become complacent, despite current supply gluts and price decreases. These are temporary. We cannot be deterred from our goal of energy independence founded on conservation of conventional sources and exploration of new alternatives.

My budget will reflect strong support for energy conservation. It is a potent weapon - and one we can strengthen through a variety of means. At the same time, we will continue to encourage exploration of new alternatives. Fortunately, much can be accomplished with the Solar Bank Grant, oil overcharge settlement money, and a reasonable appropriation.

Finally, be assured that this is an ongoing, dynamic budget process. I have already asked my agency directors to engage in further study of their programs so that additional proposals may be developed by April. Furthermore, on January 17th, I placed administrative restrictions on this year's expenditures. There will be more administrative actions designed to restore public trust in this state's government. This government must earn public respect and support. We can accomplish that in part by spending every state dollar as if it were our own.

I will continue to review our efforts. When faced with a spending decision, I will ask the difficult but necessary questions:

Can we afford it?

Can we improve it?

Can we better utilize resources?

And I will persist in answering those questions for the next four years. It is my intention to invest public funds in those programs and services which deliver the maximum benefits to the maximum number of Nebraskans. That is a goal to which I am unequivocally committed.

As we begin this new phase of the budget process, I ask that you remember several things. First, our pledge to a specific service or program is not measured by the application of funds alone but by our desire to improve, maintain, and enhance using a variety of resources.

Our desire for this state's betterment can be demonstrated by advocacy - which costs virtually nothing but gains so much. We can speak out on behalf of the farmers and ranchers. We can speak out on behalf of those seeking employment. We can speak out for those who are strapped by high energy prices. We can be a voice for the disadvantaged. We can contribute our time, energy, and knowledge for the sake of improving life in this state. To paraphrase Samuel Johnson,

to do nothing is in every person's power; to do something for the good of all sets us apart.

Second, we have already made a start. I have asked for the suggestions of state employees as to how we may save dollars. I have asked Agency Heads to review their expenditures. I have implemented a \$500 cost item review, a merit increase freeze, and a hiring review which must be completed before any job vacancy is filled. The task need not overwhelm us. We are already moving in the appropriate direction.

Third, this task will demand of all of us courage to act decisively, cooperation to achieve what is best for the state as a whole, and candor to view our economic condition realistically. As I scan the faces in this chamber today, I know that few individual's programs have been spared. I may well have reduced programs you consider vital. But I ask that we move on to the most important business of all - assisting the people of this state.

I strongly urge you to accept my premise of a 20% income tax rate. The public will not support more, and this budget is designed accordingly. I encourage you to develop a budget which stays within that tax rate. I am confident that this Legislature will approach the budget with courage, candor, and a spirit of cooperation. Our task now is to fix a smooth course for Nebraska's future.

The Committee escorted the Governor from the Chamber.

SPEAKER NICHOL PRESIDING

BILLS ON FIRST READING

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

LEGISLATIVE BILL 601. By Speaker Nichol, 48th District, at the request of the Governor.

A BILL FOR AN ACT to make appropriations for the expenses of Nebraska State Government, including capital construction and capital construction reaffirmations and reappropriations, for the year ending June 30, 1984; to amend Laws 1982, Second Special Session, LB 1, sections 62, 64, 65, 67, 73, and 74, and Laws 1982, LB 761, sections 122, 123, and 128; to provide severability; to repeal the original sections; and to declare an emergency.

LEGISLATIVE BILL 602. By Speaker Nichol, 48th District, at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to make deficiency appropriations; to provide for transfer of certain funds; to amend Laws 1982, LB 756, section 1, Laws 1982, LB 761, sections 15, 22, 30, and 36, and Laws 1982, Second Special Session, LB 1, sections 3, 7, 11,