

LEGISLATIVE RESOLUTION 10. Read. Considered.

LR 10 was adopted with 39 ayes, 0 nays, and 10 not voting.

MOTION - Escort Governor

Mr. Lundy 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 motion prevailed.

The Chair appointed Ms. Scofield, Messrs. Chronister, Rogers, Carsten, and Hall 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:

**GOVERNOR KERREY
MESSAGE TO THE LEGISLATURE
JANUARY 15, 1985**

It should not disturb us to discover that Nebraskans outside of this building often times do not connect the work we do here with the day-to-day events of their lives. Sometimes even the specific details of this budget -- and the debates which center on them -- seem irrelevant, but our citizens often have little direct contact with most of what we call government.

That we entrusted this government we have created with our freedom is undeniable. That our government's strength rests on the watchfulness of our citizens is irrefutable.

It should comfort us to know that outside of the discussions that rage over any issue you can name, beyond the battle lines where we make our political stands, life in Nebraska goes on. It is reassuring to observe that the most complicated government program begins simply with the expressed preference and action of people outside that government. Education programs begin with the thirst of individuals for knowledge; it exists when one Nebraskan pursues some hidden idea through reading or study. Economic development is the dream of one person made real by means of work, planning, and probably the willingness to sign a bank note. Our social services programs start when one Nebraskan helps another who is in trouble. Laws, law enforcement, regulation, the judiciary, and corrections are all born in the fervant desire of individuals to be free. We build roads because

we want to travel and trade with the world. Our parks begin with our knowledge of the importance of nature's beauty. All government, therefore, begins with some simple act or impulse or belief of the people.

The progress of our state is a function of the work, the wit, the faith, the love, the knowledge, and creative spirit our people. These observations do not make our efforts here unimportant. Rather, it means that we must lead, we must act decisively, must consider what we can do through this government to give our people more opportunities. We must be willing to plan and to work. We must have the intelligence and good sense to decide, the courage to act. And we must be able to persevere through distraction and disappointment.

I tell you that I am filled with hope and confidence about the future of Nebraska, despite the trauma in agriculture, the anguish of Commonwealth, and the countless other problems which face us. This hope springs from my Faith and from the amazing panorama of Nebraskans who are working and creating in this state.

I am filled with hope about the future of this state when I observe the willingness of this body to serve and to work for our people. I watched with awe the grace of Senator Labeledz not only in her decision to break the tie for speaker by voting for her opponent, but also her spirit in staying at her husband, Stanley's, side during a trying time. I watched the disappointment of Senator Carsten vanish quickly as his will and determination to make Nebraska a better place to live reasserted their dominance.

Late in 1984, members of the Associated Press selected the top news stories of that year. Most notable among the thousands of stories we read or heard about in 1984, according to the AP, were the impeachment, indictment, and perjury convictions of the Attorney General, the state closing of several banking institutions, the arrest and sentencing of John Joubert, the shooting of Cairo farmer Arthur Kirk, the debate over and passage of Amendment 4 on farm values, the compromise reached concerning Christian schools, flooding in eastern Nebraska, the national and state elections, the St. Paul tornado, and record-setting cold weather in the state.

These stories paint part of the picture of the year that was 1984. Three relate to well-known vagaries of Nebraska weather. Several more revolve around our troubled agricultural economy. Most involve a degree of personal or community hardship or tragedy.

But these stories are the bad news and, for all their import and impact, for all the attention they received and will receive, they do not tell us everything about 1984.

In 1984, Senator Warner watched with pride as the youth group of the Peace Lutheran Church in Waverly collected food, toys, and cash for distressed fellow Nebraskans in Verdigre. In Syracuse,

Senator Carsten saw the National Farmers Organization mount a grain drive for Verdigre and Senator Landis witnessed Burlington Northern Railroad employees of the Havelock shop as they launched a collection drive.

In 1984, the Farm Families Crisis Council, supported by more than a dozen church bodies, began its Farm Crisis Hotline to offer support to financially distressed farm communities. Volunteers who care comprise the majority of the network, with lawyers, members of the clergy, bankers, farmers, professors, and extension agents providing their services.

In 1984, Senator Eret can tell you how the Crete Mills, its employees, and its parent company in Illinois, donated processed grain to help feed the starving in Ethiopia. The parent company donated 400,000 pounds of processed grain; Crete Mills employees and employee members of the American Federation of Grain Mills each presented \$800 dollar checks to the program.

In 1984, retirees, business owners, housewives, and other volunteers, all constituents of Senator Sieck, worked around the clock to cut and can thousands of pounds of meat in Milford and Henderson as part of a Mennonite food relief program. Most of the canned beef will be sent to Third World countries; the broth which was canned will go to Indian reservations, the Lincoln City Mission, the Salvation Army, and other related organizations.

In 1984, Senator DeCamp saw young Brian Gill of Atkinson travel to Washington, D.C. to meet President Reagan and to receive a Presidential Award for Bravery. Brian was cited for risking his life to save the life of his sister when their family's home was ravaged by a fire.

In 1984, four Nebraskans were among forty men and women identified by Esquire magazine as individuals who are changing America. Ed Dadey and Jane Dadey who live near Senator Rod Johnson in Marquette were cited for their furniture and textile designs, respectively. Jo Ann Schmidman of Omaha, a constituent of Senator Tim Hall, was praised for her work as a theater producer, guiding the Omaha Magic Theater to its respected stature and treating in her productions socially relevant themes like child abuse. Arlen Gangwish of Shelton, in Senator Lundy's district, was named for his family farm innovation. His solution to the price fluctuations of the seasonal corn, soybean, and alfalfa crops raised on the family farm was a sheep business he designed and now co-manages. "For my parents, farming was a way of life," he told the magazine. "For my generation, it is a life-style. I choose to live this way."

In 1984, as in years past, individuals like Warren Patefield of Laurel and John Fleming of Hartington, both of whom are represented here by Senator Hefner, devoted much of their energy to

the care of our natural resources. Warren Patefield has been engaged in soil saving efforts since 1946. His service as an NRD member continues to this day. John Fleming has 240 acres of farmland near Hartington. He has taken care of the soil and improved its productivity every year. He knows that conserving the soil takes a little longer, but pays off in the long-run. That's one reason John Fleming has been recognized as a "Master Conservationist."

In 1984, Speaker Nichol worked to help the City of Scottsbluff receive \$300,000 dollars in Community Development Block Grants through the Nebraska Department of Economic Development. Scottsbluff, in turn, loaned the money to the Western Valley Packing Company for the purchase of meat packing equipment. The equipment purchase was part of Western's plan to lease, refurbish, and expand an idle meat packing facility. The plan boosted the area's economy and created 136 jobs, 68% of which are held by minority workers, signifying again the importance of public-private partnerships.

Senator Arlene Nelson knows how Jaime Kimbrough, a fourth-grader at Knickrehm Elementary School in Grand Island, continued in 1984 to excel in school and inspire her peers and teachers alike. Jaime is enrolled in the gifted program at her school, and is now reading at the 5th grade level. She likes her physical education class, and often participates in activities which surprise her teacher and other students. Jaime's teachers report that she is a persistent optimist, a high achiever, and a little girl full of hopes and dreams. Jaime also has spina bifida, which is typically a considerable disability.

In 1984, as Senator Baack knows, Connie Lapseotes, continued to operate a Bridgeport farm which exudes innovation. He now raises sugar beets, pinto beans, corn, alfalfa, wheat, and potatoes, demonstrating that Nebraska willingness to experiment and adapt. Recognizing the need for markets, Connie and four other area farmers successfully formed the Bridgeport Potato Storage Cooperative to attract potato processors.

Some of the Nebraskans I've mentioned are here today. I would like now to have them stand and be recognized.

For every Nebraskan or group of Nebraskans I have mentioned here, there are many more performing the same kinds of everyday heroics. They are investing in the lives of men and women and children they have never seen and will never see -- in Verdigre, in Ethiopia, and in the distant world of tomorrow. They are caring for each other at home, nurturing the values that have made us strong; maintaining their personal faith, their good humor, and their determined spirit. They are thinking beyond the possible and speculating about the here-to-fore impossible as they go to work each

day. They are exploring their options and opportunities, making decisions, and realizing their dreams. That is the real state of this State in 1985. Whatever challenges we face, whatever difficulties we've come through, we are still a state of individuals who are willing to initiate, to risk, to work hard, to innovate, and to care. We still have the will to make good things happen.

BUDGET

Still, sometimes I forget these things. I have a tendency to concentrate my efforts as I work on any project. And as I do, the job becomes the only thing I can see.

Take as an example this budget I present to you today. My staff, my department heads, and I have been working hard since last June to put it together. Ominous questions awaited answers:

How much should we spend in 1985-1986?

How much government can we afford?

What shape should this government take? Not just this year, but the next, and the year after that.

How do we improve our educational system?

How do we develop more employment opportunities?

How do we help agriculture regain the profit it has lost?

How do we protect our natural resources?

How do we protect ourselves and our children?

How do we contain the rising cost of health care?

How many roads should be built and where do we build them?

How do we get the bureaucracies of government to work for the people, not against them?

What do we do with Commonwealth?

And most importantly, how do we provide the greatest amount of liberty and freedom to all of our people?

I struggled to reduce government operations so as to give us a slight increase over last year. I labored to get increased funds into teachers' salaries, economic development, soil and water conservation. I committed myself to a 5% salary increase for state employees, but asked my department heads to look for savings inside for half of the increase.

On December 6 I took my budget to the people. And as I did, I again could not help but notice how easy it is to forget that the intricacies of all my effort is less important than the collective efforts on the part of the people. I could not help but notice how peoples' eyes began to glaze over when Larry Bare started listing the numbers and percentages of this budget. And I could not help but observe that the mission of selling this government can be reduced to my ability to answer one question.

This question was asked in a variety of ways by nearly every citizen I have talked to this past month. The best example of it occurred in

Valentine in the dining room of the Valentine Cafe, where I stood before a crowd of a hundred or so ranchers and business people and teachers and citizens including Senator Howard Lamb. For two hours I answered questions from people who cared about their state, who worried about their future. Many in the room had been hurt by the liquidation of the Valentine P.C.A. and the closing of the banks of Verdigre and Cody. The owner of the restaurant himself told me that this was the last meal he would serve; the FDIC was closing him out the next morning.

At the end of the meeting, as snow was building up outside, a man in the back of the room asked the question the answering of which is the key to maintaining the confidence of our people. He said: "Governor, can you tell me one thing about this budget that would make all of us give you a round of applause?" I was tempted to answer by saying: "How about 'Good-bye'?"

But I didn't. Instead I talked about the balance that exists between a government created by the people trying to provide freedom and opportunities for its people, and the people themselves working hard in their lives trying to take advantage of that freedom. I talked about the difficulty we have as people putting together a government that encourages diversity and freedom of expression for 1.6 million people with different skills, ages, wealth, and health.

We have old people and young people, rich people and poor people, doctors, lawyers, farmers, and ranchers living together on 76,000 square miles of rich and open land called Nebraska.

The people have listened to me talk about this budget and they have responded. They do want to increase the salaries of their teachers, they want to increase employment opportunities through economic development, and they want to preserve and protect their soil and water resources. But I believe they are also concerned, as I have heard most of you say as well, that an overall general fund budget of \$883 million dollars is more than we can afford in 1985-86. Accordingly, I am introducing a budget that is \$19 million dollars less than the one I proposed earlier, while still preserving the three primary areas of emphasis. That reduction is accomplished with the following actions:

1. The scheduled assumption of the Municipal Court system in Lincoln and Omaha, even though I understand the value of a unified court system should be postponed for one year. This will save over \$4.7 million dollars.

2. The General Fund increase of \$2 million dollars for Economic Development will be eliminated. This will leave the \$3.3 million dollars from the Nebraska Future Fund, which will still be a significant increase for this important effort.

3. The \$2 million dollar increase for the Water Management Fund

will likewise be eliminated. During the upcoming year we will focus our efforts on the identification of the specific need and feasibility of projects and our expanded effort on soil and water conservation.

4. The \$2.4 million dollars that I had set aside for "A" bills or additional spending proposals that the Legislature might identify will have to come from internal reallocations.

5. An estimated \$4 million dollar balance in this year's Medicaid Program will be reappropriated saving that same amount from next year's Social Services budget without causing reductions in services.

6. \$1.2 million dollars of the amount recommended to implement LB 994, the Education Improvement Bill of last session, has been removed. This reduction will not affect the implementation of the career ladder.

7. The construction of the Lied Center for Performing Arts Building must be postponed for one year, saving \$1,350,000 dollars. In a recent discussion with Woody Varner, I discovered that most if not all of the \$1,350,000 dollars recommended for Lied will not be needed until 1986. Woody has raised nearly \$4 million dollars of private money to match the \$10 million dollar gift from the Lied Foundation. Investing in the arts is an essential item and not a frill. My support for this project remains strong.

8. By closing the Youth Development Center at Geneva and transferring the present population to Kearney, we can save an additional \$600,000 dollars.

9. The budget for the Legislative Council has been reduced by \$133,307 dollars, which will still allow for an effective 4% increase.

10. Additional cash balances have been used to reduce general funds in the State Colleges by \$428,941 dollars and the Tech Colleges by \$153,643 dollars.

These actions taken together result in a revised budget of \$864.6 million dollars, an increase over the current year of \$41 million dollars, or 5%.

That increase is distributed as follows:

- State government operations will increase by \$3.5 million dollars, or 1.7%.
- Higher education, a \$9.3 million dollar increase, or 4.4%.
- A State aid increase of \$24.1 million dollars, or 6.1%.

I have also heard the people say that they would prefer that our tax rates not go up. Accordingly, I am recommending that we fund this budget by keeping our sales tax rate at 3 1/2% and our income tax rate at 19%. We can do this if we will close a number of tax loopholes. These sales and use exemptions which I am recommending we end do not exist in at least three of the adjacent six states. In some instances, Nebraska is the only state where these exemptions are granted. Eliminating these exemptions is fair, it is reasonable, and it

enables us to keep the overall rate down for the majority of our citizens.

Between now and the end of the session, there will be virtually continuous debate between those who say we should spend more and those who will argue for less. And I intend to be an active participant in those discussions. But we cannot allow ourselves to be consumed by that debate. We must not lose sight of what I believe to be our common goal -- a government dedicated to providing opportunities for individuals to pursue their future with a sense of hope that tomorrow can be better than today.

I want to turn now to my recommendations for the key areas of agriculture, education, and economic development before turning to a number of additional issues which are inextricably tied to the state of the State.

AGRICULTURE

First, agriculture.

We are currently in a time of crisis.

In a state which has relied upon agriculture as its mainstay since 1867, this past year has been one of the bleakest for significant numbers of Nebraska farmers and ranchers, and many individuals whose lives are closely linked to agriculture. Foreclosures, bankruptcies, and bank closings are higher than in any period since the 1930's.

National policies, international events, and weather disasters have contributed to these adverse conditions. These outside factors make it difficult for the state to initiate corrective measures -- other than band-aid measures -- to help.

Despite the crisis, however, it is critical that we invest in the basic assets of agriculture -- natural resources. And as I think about those resources, I cannot help but recall the contributions of the late Senator Martin Kahle.

We in Nebraska have been blessed with a rich base of natural resources. The future viability of agriculture in this state depends in large part on our willingness to conserve soil, water, and energy. That we act decisively today is imperative. Each year we lose 142 million tons of soil in Nebraska. That translates into lost productivity, increased agricultural production costs, and water pollution. We cannot tolerate soil erosion at such a rapid pace, nor can we tolerate the results.

Spurred by individuals like Senators Scofield, Beutler, Sieck, Schmit, and Hoagland, we have devoted much attention to our natural resources in the past. In 1983 we increased soil conservation funds by 40%, began a 5-year program with the University Extension to encourage conservation tillage, ecofallow, and improved irrigation management, and launched the "Trees for Energy Conservation and

Growth Program" to increase tree planting for building protection. In 1984, my administration's water conservation and development plan was passed by this body. Work began on a statewide soil conservation strategy. The Department of Energy, under Kandra Hahn's direction, expanded its tree planting effort and started a community level program to change energy use and decrease dependence on imported energy.

To continue our work, I am recommending a \$4.3 million dollar increase for soil and water conservation, which includes \$3.3 million dollars from the Nebraska Future Fund -- a fund to be created by state assumption of the eight-cent reduction in the federal cigarette tax. This will make state conservation funds available to more farmers every year as they work to implement effective conservation practices.

Failure to act, however, could have serious, long-term implications for our future as an agricultural state. Soil is the basic production asset for the agriculture industry. We know that in any other industry, maintenance of production equipment is necessary to avoid the rapid deterioration which can cause business failure. We must make a similar commitment to our soil resource.

In addition, my budget for fiscal year 1985-86 addresses several recommendations of the Water Independence Congress. A number of the Congress' suggestions were implemented through LB 1106, passed last year under the able leadership of Senator Loran Schmit who has been involved in so many important water issues. My budget includes continued funding for planning and technical assistance through the Water Management Fund. Another area addressed by the Water Congress which is receiving increased attention is groundwater quality protection. The Department of Environmental Control has developed a groundwater protection strategy, and a number of those elements are being addressed by the 1985 Legislature, including underground chemical and petroleum storage and chemigation. Additional funding is provided in my budget for the Department of Environmental Control for groundwater quality protection.

Obviously, our efforts in agriculture have not been confined to natural resources.

-- Since January 1, 1983, with the dedicated assistance of Rob Raun and Chuck Schroeder, we have been successful in securing federal disaster assistance for 47 counties and 56 contiguous counties because of drought or flood conditions. It was the misfortune of some of these counties to suffer the ravages of both of these natural disasters, thus they have been declared eligible more than once.

-- We have initiated a program whereby our Nebraska Department of Agriculture was involved in a cooperative effort with the Farmers

Home Administration. Staff members were hired by state government and assigned to the Farmers Home Administration for the specific purpose of assisting private lenders in the preparation of Farmers Home Administration Guaranteed Loan Applications. Private lenders supported this program with voluntary contributions, and state controlled funds were used to continue the project after contributed funds were exhausted. As a result of this effort, Farmers Home Administration Guaranteed Loan approvals in Nebraska increased nine-fold.

-- We have provided additional funds to farm financial management education programs so that their services are available to more individuals.

-- We now have a constitutional amendment which allows farm land to be assessed differently than other types of property for tax purposes.

-- We have funded the Ag Crisis Hotline to assist farm families in distress.

-- We have, through the Department of Labor under Ron Sorensen, created the "Farmers in Transition" program. We have received for this year about a half-million dollars under the Job Training Partnership Act. Funds are currently focused on individuals who are leaving farming and ranching.

-- We have persuaded the National Governors' Association to create a national Task Force on Agricultural Finance and Rural Development. As chairman of this Task Force, I have worked to draw national attention to the financial stress being felt by significant numbers of farmers and ranchers nationwide due to high interest rates. I have urged a reduction in the federal deficit to bring interest rates down. I have also called for federal programs to subsidize interest rates to farmers and ranchers during this period of stress -- much like the subsidies granted to New York City and the Chrysler Corporation during their periods of stress.

-- I will continue to advocate these and other policies which would aid our agricultural sector as Congress develops the 1985 Farm Bill. I encourage this Legislature and Nebraska farm groups to join me in sending a resolution to Congress outlining components which should be included in that bill.

The agriculture sector's slow recovery from this most recent recession and the less than favorable predictions for major farm commodity export markets have prompted some to recommend we give up our "romantic attachment to agriculture" and diversify our economic base. Many point to the telecommunications industry as a logical avenue for diversification.

My administration's successful push for legislation last session to create the Telecommunication Center demonstrates my commitment

to diversification in that area.

However, my administration's successful push for the creation and continued financial support of the Food Processing Center also demonstrates my commitment to diversification -- diversification within agriculture. The Food Processing Center provides the research, technical assistance, and promotional assistance to encourage the processing of more agricultural products within our borders. We can also diversify by continuing our search for alternative uses of the commodities traditionally grown in Nebraska. And we can diversify by intensifying research efforts to determine which food and fibers not traditionally raised in Nebraska could be. Of course, an equally intensive effort to develop the markets for these products will also be needed.

Efforts to diversify the agricultural base make sense in a state where we count among our greatest resources our land base, our abundant water supply, and the tremendous productive capacity of our farm families. It makes more sense than "abandoning our attachment to agriculture." I challenge those who say we should give up this attachment to instead join us in our efforts to diversify food and fiber production in Nebraska.

Although federal policies constrain us and the situation is grim today, we must continue to look for opportunities. I know that Senator Rod Johnson, chair of the Agriculture Committee, will provide strong leadership as we do so. Agricultural experts are not describing the current crisis as one of short duration. Consequently, we must begin to ask ourselves how we can use our resources wisely to ensure the future viability of agricultural production.

EDUCATION

Second, education.

We have already accomplished much in elementary and secondary education. We have restored education as a top priority for the state and focused the state's attention on "excellence in education." We have created a Task Force on Excellence in Education and, through its process, studied the status of elementary and secondary education in the state. We have passed and signed the Comprehensive Education Improvement Bill, LB 994; and we have taken steps to resolve the Christian school issue through LB 928.

I want to recognize the contributions of the Education Committee and virtually all segments of the education community in developing and passing LB 994. I also want to recognize the Department of Education for including over 200 lay citizens and educators in the process of developing rules, regulations, and guidelines for the several new programs authorized by LB 994.

Now, I propose that we continue in the direction we established last year. I am recommending an appropriation of \$13.9 million

dollars for the implementation of programs authorized by LB 994. I must emphasize that these programs are necessary in order to begin to implement the various provisions of the bill which have already been authorized. They include:

-- Entry Year Assistance Program, designed to provide assistance and supervision of new teachers.

-- Extended teacher contracts, grants to local school districts and ESU's which provide lengthened contracts for teachers. The extended contracts are for the purposes of improving the education program of students in need of remedial teaching or individualization, and to provide enrichment curriculum.

-- Instructional technology, support for projects to assist local school districts in the orderly introduction of technology.

-- Curriculum dissemination, designed to encourage collaboration among teachers. It provides grants to teachers who have designed or adapted especially effective or innovative curricula, and to institutions which assist in the dissemination of such curricula.

-- Scientist-in-Residence, grants to schools to finance instruction of students and/or teachers by visiting scientists on a short-term basis.

-- And the Career Teacher Incentive Fund, which funds the certification/career ladder established in LB 994. This is an optional tool for local districts which is designed to:

1) Provide an incentive for current Nebraska teachers to convert their current certificates to the new, more rigorous standards established in LB 994.

2) It is intended to attract more of the most capable students into teaching by demonstrating a state commitment to establishing career ladders and to raising teachers' salaries and status.

3) It will provide an incentive for both current as well as new teachers to reach higher levels of performance and educational attainment.

4) It will assist local school districts in raising all teachers' salaries.

5) It is designed to initiate the process of raising Nebraska's teachers' salaries into the top 10% in the nation.

6) And it should improve the quality of instruction by both requiring as well as recognizing and rewarding teachers for the improvement of their teaching skills.

The importance of these proposals is illustrated by the case of Susan Petska, a student at Chadron State, who testified before the Education Committee at their interim study hearings last September. She is a bright, intelligent, poised young woman who was previously appointed as a student member of the State College Board of Trustees. While she is studying to go into business, she frequently is called upon to tutor others. When asked why she is not going into teaching, she says that her tutoring experience has been positive, and there are many things she would like about being a teacher. Then she asks, "Why should I work hard for four years preparing for a profession that only pays \$11,000 dollars? And why should I enter a

profession where there are no real opportunities for advancement?"

In order to attract young people like Susan into teaching we must forge a career path that offers challenge, opportunity, and reward.

If we fail to act, we can expect:

- Nebraska teachers' salaries will fall still farther behind since many states are developing and funding career ladder programs aimed at raising teachers' salaries.

- Fewer of the most academically capable students will choose to go into teaching.

- Severe shortages will develop in many teaching specialities by 1990 because of certain demographic patterns:

- In short, if we fail to act, we will be unable to assure either the number or quality of teachers needed in the future.

But if we act now as I am suggesting:

- The teaching profession will be at once more demanding and more rewarding;

- The exodus of the most highly qualified teachers will be slowed;

- More highly qualified students will be attracted into the teaching profession;

- Nebraska will have no (or at least fewer) painful teacher shortages;

- Nebraska's schools will be more responsive to the needs of our students.

These proposals will benefit students, first and foremost, by invigorating the teaching profession. And as we benefit students, we will benefit the entire state, economically and socially.

These proposals also represent an investment in Nebraska's future. To neglect education this year, based on the premise that the economy is bad, would be analogous to the farmer who would not invest in seed corn because it was a bad year. It saves money in the short run, but is a disastrous decision in the long run.

In terms of higher education, the University would receive an increase of \$6.5 million dollars, or 4% over the current year. While the State Colleges would receive a higher percentage increase, the same policies were applied to both.

In addition, I have proposed that \$3.3 million dollars from the Nebraska Future Fund be used to fund the state scholarship program to allow more Nebraska students to afford higher education.

Postsecondary education is an area in which we are faced with serious challenges and powerful opportunities. The Citizens Commission for the Study of Higher Education, which I appointed last July, focused on those challenges and opportunities in their recent report, *Toward the 21st Century*. The Commission found that on one hand, Nebraskans value postsecondary education highly and depend upon it to provide them with opportunities as individuals. They are

proud of their colleges and universities, and with good reason. On the other hand, we are faced with a long-term reduction in enrollments and a difficult economy, both of which present problems for funding our higher education institutions.

These are basic realities. The issue, however, is whether the people of Nebraska are up to the challenge they present. I believe we are, and I believe Nebraskans expect you, their Legislators, along with their Governor and the governing boards, administrators, faculty, and students who make up Nebraska's system of postsecondary education, to rise to the challenge with them.

The 30 recommendations that Jim Olson, Bill Strauss, Dave Buntain, Jack Thompson, and the other dedicated Nebraskans who made up the Commission have arrived at provide the foundation for a strategic plan for the future. If we are to maintain a high degree of individual access and quality, we must capitalize on existing assets, focus available resources more effectively, and provide better overall coordination as well as better linkages to other public and private economic development and quality of life enhancement efforts.

In order to meet the challenge, several specific legislative actions are required. Some are already in progress through the initiative of individual senators. I applaud them for their efforts. Other actions are still under discussion and may result in bills being introduced by committees or individual senators on behalf of the Governor.

The list includes the following legislative topics:

- Funding the State Scholarship Program for the first time, from the Nebraska Future Fund that I have proposed.
- Creating a faculty compensation challenge fund that combines increased state funding with major reallocations and new non-state funding at each institution.
- Reversing the brain drain by recruiting non-Nebraskans of high ability and allowing them to enroll at resident tuition rates.
- Providing for faculty renewal and redeployment through incentives for early retirement.
- Creation of a Research and Development Corporation.
- Development of a Center for Educational Technology.
- Initiating constitutional changes for a single, appointed governing board for Nebraska's public four year institutions.

I will support this governing board recommendation, and I will return with more specifics regarding the other Commission recommendations. None of the changes are easy ones. However, students, educators, and taxpayers have a right to know that we are prepared to discuss, review, and act on the tough questions. We, ourselves, must be up to the challenge.

ECONOMIC DEVELOPMENT

Third, Economic Development.

We have not as yet even scratched the surface of what can be done in economic development. I urge this body to give its attention to looking at the need to increase employment opportunities in this state and to our success in accomplishing this end.

It is obvious that food related industries which add value to the product we grow are of great benefit to us. The Agricultural Credit and Rural Development Citizens Committee made this recommendation and I agree. The Food Processing Center started two years ago will help. The first alcohol plant will open in Hastings in a few weeks. Senator Chronister helped to insure that we used the Job Partnership Training money to help re-open the Land O'Lakes plant in Schuyler. Utilization research at the University needs to be increased.

If you doubt the merit of such efforts, look at what any feedlot or packing house can do for a local community and the local producers. Visit the Kellogg plant in Omaha where 900 Nebraskans work every day processing 12,000 bushels of corn. Drop by Omaha Steaks International or Delicious Foods in Grand Island and you'll begin to feel the excitement of targeting these industries.

In addition, few would argue that we need to diversify our economic base. Last year, the Telecommunications Task Force recommended the creation of the Telecommunications and Information Center. This Center was created last year by this legislature to ask fundamental questions about how we regulate this industry, how we introduce the new technologies into our schools and to our children, and how we target and recruit new businesses into the state. Senator Labeledz should be recognized for her leadership in securing passage of the legislation which created the Center.

In January, Rod Bates assumed control of the Center. Rod has an exceptional board of advisors who are knowledgeable of telecommunications. Already they have established a data base of existing Nebraska businesses to enable us to identify potential expansion opportunities. In November, Nebraska responded to the leadership of one of its own natives, Bill Norris, Chief Executive Officer of Control Data, to join six other states in the formation of the Midwest Technology Consortium. This consortium will help us target our research and use the research of other states as well as helping us make good economic decisions about the development and deployment of technology.

Again, if you doubt the potential of telecommunications industry for employment opportunities, look at the rapid growth of the reservation and credit card industries in our state. Look at the Nebraska Television Network and the lead they have taken in helping Nebraskans overcome their individual isolation. Visit Offut Air Force Base and talk to their communications specialists about the future

of this industry. Listen to Senator Morehead and Senator Harris describe the recommendations of a group of leading Nebraska businesses that we establish a Research Center at UN-L in the area of fibre optics.

I know you will look at the large increase in Economic Development that I am recommending and wonder whether the investment is worth it. I urge you to consider the success of the Nebraska Investment Finance Authority, which Senator DeCamp was instrumental in securing for us. We were all concerned two years ago when we combined the three tax exempt boards. But let's look at the results of this effort under Don Dworak's leadership:

1. We have increased tax exempt financing by 44%. This represents a \$8.8 million dollar reduction in interest charges to the individuals and businesses. Last year I told you the story of Bob Allington and his success creating 280 jobs using tax exempt financing. Bob will tell you that without this tool he would have located his business in Denver. This year, many more success stories were continued and begun because of NIFA.

2. The Ag Finance Authority under NIFA had an unprecedented increase in activity. This fund truly acted as a beginning farmer program and provided affordable financing to many Nebraskans in 1983 and 1984.

3. The total new employment through NIFA since this legislature created it in 1983 has been 1,025 permanent and 2,750 temporary jobs. We have a very strong board, and exceptional new Executive Director in Dennis Vellek, and an excellent staff who will be working hard in 1985 to break the records they set in 1984.

Look at what we have accomplished by using the Community Development Block Grants for Economic Development. 1,600 new jobs were created or retained in 1984. Ask Senator Rupp about what the block grants did in Columbus, or Senator Lundy in Kearney, or Senator Nichol in Scottsbluff, or Senator Lowell Johnson in Fremont. In addition, we have finally begun to crack the Department of Housing and Urban Development to get favorable approval of UDAG funds.

In 1985, we will see the implementation of the Business Development Authority which you created last year. In the past two years, Nebraska has moved up from 35 to 21, according to Inc. magazine, in its attractiveness for small businesses. This is good news for all of us who want to see our state prosper and grow. With your assistance, we'll see even greater progress in 1985.

Clearly, we have a strong base to build on in 1985.

To that end, my budget for 1985-86 includes the recommendation that a \$3.3 million dollar fund be created in the Department of Economic Development. This would be a flexible source of monies

which would be used in cooperation with local resources and perhaps Federal Community Development Block Grant funds to assist with specific job creation opportunities. Funds could be used for job training, local improvements, research, or any number of other uses. The key to the success of this recommendation is that it would work on projects identified at the local level and would hopefully be the additional incentive often needed to move a project from conception to reality.

The Economic Development Opportunity Fund will provide for expanded opportunities in economic development. The teacher salary program will assist us in our pursuit of still higher levels of excellence in education. And it is my hope to establish a Nebraska Innovation Center to allow inventors with products to be completed to use University expertise and facilities to complete them, and to move the research ideas from the University into commercially viable products.

In addition, I share Senator Landis' interest in the enterprise zone concept.

The enterprise zone is a designated area marked by various types of economic distress. That area is targeted for regulatory relief, tax incentives, and new public investment. Through this approach, new private investment, economic activity, and job creation can occur, improving the quality of life and encouraging new economic growth. It is vital that this assistance be targeted to areas of greatest need.

Efforts of the past several years have given us much to build on in the area of economic development. We can write more success stories if we are willing to invest in them today.

And as we invest, we must remember that food production is one of the most critical components of our economy. Farmers and ranchers, of all types, communities, and businesses in Nebraska are suffering today from several consecutive years of no profits for our food producers.

Although federal policies set the prices we receive for our products and set the interest rates for our agricultural businesses, we are responding as a state calling for a change in those policies. Food consumers, farmers, and ranchers need a profit.

Farm and ranch organizations throughout our state are united. They are calling for short-term responses to our current financial crisis and long-term profitability for food producers. Twelve prominent Nebraska farm and ranch organizations recently met and asked President Reagan to take immediate action to resolve the financial crisis. They asked the Nebraska delegation in Washington to form a coalition in the House of Representatives and Senate to change federal policies so Nebraska food producers have an opportunity for profits.

Agriculture, education, and economic development are three areas

in which I believe our immediate investment is essential. The efforts we exert and the substance we provide for each will do much to shape the face of our future.

However, there are obviously more issues affecting the state of this State as we begin 1985.

BANKING

First, the state of banking in Nebraska.

1984 was a bleak year in this area, as well. The Commonwealth problem lingers. The whirlpool it created trapped State Security Savings. Rural banks in David City, Verdigre, Kilgore, Cody, Uehling, and Dannebrog failed.

In 1985, we must take steps to rectify this situation. The Commonwealth Special Committee gives us a basis to do so. Morris Miller has generously provided his skills -- demonstrating again that Nebraskans are willing to serve their state if asked. He has secured the confidence of the creditors, he has secured my confidence, and he should have yours as he fashions a plan to remedy this terrible problem.

At the same time, a number of pieces of legislation are being proposed to insure that bank regulators have the tools to avert further catastrophe.

I urge your support for these important measures.

CORRECTIONS

Second, we continue to face the challenge of rehabilitating adult and juvenile offenders using resources we already possess. To meet this challenge, we must be flexible in the use of our resources and we must be willing to place offenders in the least restrictive environment, consistent with the threat they pose to society.

At the same time, we must regularly evaluate the merits of operating specific institutions which may have outlived their usefulness. Rather than serving the needs of our offender population and our society, such institutions may become a terrific drain on public dollars. For this reason, I am recommending that the Youth Development Center at Geneva be closed. The girls now housed at Geneva would be transferred to the Youth Development Center at Kearney, with no deterioration in the services provided them. I am recommending this action because Geneva has become an inefficient facility while Kearney is actually underutilized.

We can also maximize our resources in corrections by placing individual offenders in the least restrictive environments possible. With my approval the Department of Correctional Services, under Frank Gunter, and the Board of Parole are working together to determine which offenders are safe and worthy candidates for furlough, work release, educational release, and parole. Not only is the cost of maintaining offenders on such programs far less than the

cost of confining them in institutions, but the offenders' likelihood of reentering society successfully is greater if reentry is guided and supervised.

With wise and creative management of existing resources, Nebraska's correctional system can continue to maintain exemplary standards of quality.

HEALTH CARE

Third, we Nebraskans continue to face the challenge of providing quality and affordable health care. As a nation, we spend over 10.5% of our GNP for health care. While a comparable figure is not available for Nebraska, we have experienced a constant upward trend in health care expenditures. Per capita expenses increased from \$178 dollars a year in 1966 to \$796 dollars in 1980.

As we consider the allocation of health care dollars, we must maintain our commitment to the health care needs of Nebraska's elderly, poor, handicapped, and others who depend on state aid.

However, as much as possible, we should reallocate monies to programs which encourage good health behavior and wellness. We must continue to seek alternatives to institutionalization for the aged and mentally disabled. We must continue to support efforts like the Governor's Health Promotion Council, which is acting to encourage more health conscious communities.

And we should applaud efforts which are being made by Helen Boosalis and her staff in the Department on Aging, Gina Dunning and her staff in Social Services, Dr. Gregg Wright and the Health Department, and Ron Jensen and the Department of Public Institutions to keep health care costs down.

1) Independence for the elderly and development of community services are being promoted.

2) Wellness is being stressed.

3) Prospective payment systems are being developed administratively.

4) Nursing home construction is being restricted so that private congregate living arrangements have a chance to be developed.

5) Efforts are being made to make consumers more aware of health care costs.

6) Community services for the handicapped and mentally ill are being created.

These are commendable efforts which deserve our support and appreciation.

I support Senator Wesely's efforts to contain escalating health care costs. Of special interest is the Uniform Billing and Data Collection Act. This Act, proposed by Senator Don Wesely, is an important and major step in containing the spiraling cost of health care in Nebraska.

Senator Wesely's proposal would require all insurers and

participants in insurance arrangements in Nebraska and the Medicaid program to utilize and accept the Uniform Billing Form Number 82 on claims filed for the payment of hospital claims. A uniform cost reporting system will provide comparable health care utilization and cost data, from which the Department of Health would then develop a diagnostic cost index on individual hospital charges. Such information will enable the consumers to make cost effective choices about when to purchase health care services and promote price-based competition among health care providers.

I encourage your support for this Act.

VIOLENCE AGAINST WOMEN AND CHILDREN

Fourth, the final report of the Task Force on Violence Against Women and Children was made public in September. I want to take this opportunity to thank once again the Nebraskans who were involved in this task force.

We must recognize that a single child, abused or neglected, is one child too many.

We must recognize that one incident of sexual or other physical violence against a woman is one act too many.

The problem of violence against women and children is a burden borne by our friends, our neighbors; perhaps our own families. It is both a community issue and a governmental one. Our role in law enforcement and in government is to intervene in situations of violence. The community's role is to begin working toward the prevention of violence.

I have included in my budget \$150,000 dollars for a Resource Center in the Department of Social Services to focus on violence against women and children, including sexual assault, domestic abuse, and child abuse and neglect.

In addition, I have advised the Department of Social Services to take a number of actions based on the Task Force recommendations.

Although these are positive steps, much, much more remains to be done. It is a challenge, and a critical one. As the Task Force report stated:

"If we believe that the problem is not our problem because our family, neighborhood or community is immune, we must remember that child victims of violence grow up to be violent adolescents and adults who live in the same world with our children and grandchildren.

POVERTY

Fifth, we face a tremendous challenge in the form of poverty in this state.

Poverty exists in Nebraska, here, in the midst of the "Good Life." And as long as it exists, the quality of all of our lives is diminished.

We are taking steps to deal with this immensely complex question of poverty.

For example, the Department of Social Services is starting a new program for recipients of Aid to Dependent Children, called Job Support. Unlike often costly or the sometimes punitive work programs, it is designed to assist individuals to enter employment. The focus is to not find employment situations for individuals but rather to enable the individual to find employment.

The job support program will be created by diverting existing department resources, and the private sector will be encouraged to help through donated time and facilities. If successful, it will lower public assistance caseloads and allow greater time to be spent in insuring timely and equitable benefits for those still in transition.

Granted, this is one effort in the context of an imposing, confounding problem, but it does suggest that we can, with creativity and determination, confront the issue squarely.

PROPERTY TAX

The need for property tax relief is a concern that I share with all of you. Obviously, I am also concerned about the sales and income tax rates; this budget reflects that concern.

The average property tax levy against assessed valuation is 2.26% in Nebraska. This is fourth highest in the nation. Action obviously is called for. However, as we debate what should be done, consider the following:

1. Of the approximately \$41 million dollar increase in my recommended budget, \$28.2 million goes to local government and property tax relief.

2. We will not relieve property taxes without doing two things which are always difficult: Increasing state spending and interfering with local control with some form of a lid.

3. There is a nationwide movement of our people to broaden the base of taxing transactions. Do not be fooled into thinking it is easier to simply raise the rates just because the Rotunda does not fill up with lobbyists when you do.

REVENUE

Finally, revenue.

I have raised the issue of taxes on several occasions to encourage public discussion. Specifically, I raised the issue in the context of closing sales tax loopholes to fund a 25% reduction in the property tax.

Perhaps a little history of the Nebraska sales tax is in order. The original Nebraska sales tax proposal was included in the McClelland Report. That report was the result of a 1962 study of Nebraska by a well-known tax expert and it recommended very few sales tax exemptions. The Legislature amended the proposal to exclude several

specific items or services from sales taxation prior to the passage of the sales tax law in 1967. Since that time over 30 additional exemptions have been granted by the Legislature resulting in a loss of over \$66,000,000 dollars of state revenues per year at present rates. Every year special interest groups lobby the Legislature claiming that they too should be exempted from our sales tax.

The granting of additional exemptions from the original sales tax without a consistent objective criteria to justify the exemption has severely eroded our sales tax base so that fewer people and businesses are contributing to their tax responsibilities.

My concern over this issue has led us to a study of sales tax loopholes in Nebraska. The study, when finally completed, identified 177 sales tax exemptions. I am proposing that we use an objective criteria to decide which of those exemptions to eliminate.

In addition to studying the Nebraska sales tax, we also studied the sales tax structure of six surrounding states. Using that information, I am proposing that with the exception of food, we eliminate any Nebraska sales tax exemption that three or more surrounding states do not grant. This results in eliminating 56 sales tax exemptions.

This approach will close loopholes, bring us in line with some of our sister states, and reverse some of the damaging erosion of our sales tax

It will add \$44,600,000 dollars in revenue over a twelve month period but because of timing of implementation for fiscal year 1985-86, we will only receive eight months of that revenue for a total of \$29,700,000 dollars.

While a few services are included on the list of exemptions proposed for elimination, a general sales tax on services is not proposed. However, I believe this issue deserves further study also.

CONCLUSION

In summary, I think it is critical for all Nebraskans to realize that our commitment as a state to agriculture, education, economic development, and a host of other areas should not be measured by the allocation of state monies alone.

Our commitment encompasses more than state dollar expenditures. It includes the kinds of efforts I cited in the beginning of this address: the work of volunteers, artists, innovators, risk-takers, and business people; the qualities of compassion, humor, and faith; the public-private partnerships and the entrepreneurial spirit; the courage of a little girl and the determination of a farmer.

Let me try to illustrate this dynamic with a story. In November 1983, I attended a banquet in the Rotunda of the Capitol just outside this Chamber. The reason for the dinner fades from my memory. I remember that it was only a few weeks after Commonwealth had been closed. I ate, made my speech, and rose to leave.

As I was heading for the door, one of the dinner guests shook my hand. He said, "Governor, I used your name today. I hope you don't mind. My wife and I came to town earlier to visit a boy who is at the Lincoln Regional Center. I met the boy and want to adopt him. But you know, mother needed to meet him first. So my wife and I came early and went to the Center. But the people who worked there wouldn't let a couple of poor dirt farmers like us in. I didn't know what to do. So, I said: "Listen, I'm going to have dinner with the Governor tonight and I don't think he'd want you to keep us out." I hope you don't mind me doing this."

This man and his wife were so happy, so solid, so wonderful, that I knew somehow everything would be all right. I feel the same way watching my parents. Or Rob and Eileen Raun. Knowing that Gene Mahoney will be awake tomorrow before the sun comes up, knowing of his dedication to enhancing our lives through Game and Parks, makes me feel a whole lot better. I thrill at the intense feelings of Father Battiato. I am moved by the words of Ted Kooser and the smooth, easy work of Henry Spomer, a Lincoln cabinet maker. The images of our people breathe life into my own work: A Christmas picture of John Cavanaugh and the 7 red-headed kids, the tireless efforts of my brother-in-law Dean Rasmussen, the sacrifice of Bob Spire, the sweetness of the March of Dime's poster girl, Jody Andersen, the strength of Howard Phelps after Rosemary, his bride for 50 years and my friend for ten, died last September.

It should give all of us comfort and hope to know of these and hundreds of other Nebraskans who are working every day to enrich this state. It should remind us that the expenditures we in government make do not represent the sum of our commitment. It should persuade us of the need to invest as we are able in the areas which form the foundation of our future.

And whatever our differences, it should inspire us to keep foremost in mind our shared goal: opportunities for individuals to pursue their dreams with some real hope that they will be realized.

The Committee escorted Governor Kerrey from the Chamber.

PRESIDENT SIGNED

While the Legislature was in session and capable of transacting business, the President signed the following resolution: LR 2.

BILLS ON FIRST READING

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