

provision of service as prescribed; to limit liability as prescribed; to provide a penalty; to harmonize provisions; and to repeal the original section.

**LEGISLATIVE BILL 836.** By Withem, 14th District.

A BILL FOR AN ACT relating to professional and occupational licenses; to amend section 71-101, Revised Statutes Supplement, 1984; to redefine an act; to provide duties for the Revisor of Statutes; to define and redefine terms; to provide additional powers for the Board of Examiners in Dentistry; to provide concurrent jurisdiction as prescribed; to provide for hearings and notice; to provide for rules and regulations; and to repeal the original section.

### **MOTION - Escort Governor**

Mrs. Labeledz moved that a committee of five 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 Messrs. Warner, Harris, Hannibal, Mesdames Higgins, and Smith 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, and fellow Nebraskans, I stand before you to deliver my fourth and what for me is my final State of the State Address.

My intentions are to describe for you the condition of Nebraska as I see it, and to frame for you what I believe is the prudent course for State government this next fiscal year. As I look at and listen to Nebraska I am reminded of the scene upon which I looked in the days and weeks which followed the Omaha tornado of May 6, 1975.

Only a small percentage of Omahans suffered a direct loss to the health of themselves, their families, or to their property on that day. Within a miraculous span of hours the debris had been cleared from the streets, power had been restored, and all essential services were being delivered at their normal levels. Unless you drove into the disaster area or paid attention to what was being described by the media, you might be completely unaware that a tornado had ripped through the entire North-South length of Nebraska's largest city.

Despite the occurrence of the city's most spectacular disaster, life in Omaha went on pretty much as usual. Sure, for a day or two there were a few road blocks and occasionally a slow moving truck loaded with the wreckage of someone's house or business that might delay an important trip to the post office of the local shopping center. And most of the natives had their own personal story to tell about where they were and how they survived. However, the startling first impression that I recall most vividly is how life managed to go on.

In fact, the disaster somehow made us stronger. It rekindled in us the awe and respect we should always have for natural forces as well as our Faith in the God who sets them into motion. Proud and haughty men and women became humble and bowed as they faced again the fragile and finite condition of our lives. The gratitude we felt to be alive spread into our attitude towards our families and our work.

Suddenly we saw a world that had somehow escaped us before: We saw the world that exists outside of our own lives. We saw people who had been hurt and who were in trouble, and we volunteered to help them without considering ourselves first. The generosity and help which was offered to those who needed it created an infectious mood that could be felt and which, I believe, contributed substantially to a startling result: Omaha, devastated by a tornado, came together as a community and became stronger as a result.

As I view our State today I see the same kind of damage and the same kind of potential. The damage is largely to our agricultural sector and the impact in many ways is more substantial than what happened to Omaha in 1975. The damage is more wide spread and is more serious. Its cause is not a natural disaster around which we almost instinctively rally with private and public support. Its cause is a combination of Federal action and inaction as well as profound changes in both the competitors' capacity to produce and in the consumers' volume and quality of purchases.

In short we find ourselves caught as a casualty of successful Federal efforts to control inflation and the insidious ability of that government to sell bonds when it is unwilling to make the taxpayers pay for all of the government they receive. We are also struggling to adjust to a market place that is changing rapidly every day: Not only have the numbers of competitors increased, but the type of food demanded by the consumer is rapidly being altered by lifestyles, income, health considerations, and the desire for variety.

Despite this disaster I am able, for every one of the reasons that can be named for us to despair and be resigned to a dark and dreary future to point to ten more reasons to be optimistic and hopeful. And every reason I cite is based upon examples of citizens who are responding forcefully and imaginatively to the challenge. Every

reason is based upon the hope, the faith, the love and the work of our people.

Nebraskans are prepared to respond as a community to the disaster which has struck our State. Nebraskans are willing to make the selfless sacrifices which will be the essential ingredients of our movement to a stronger and better tomorrow.

At the beginning of this address during which I will outline my proposals for helping our citizens accomplish this difficult task let me caution you against doing one dangerous and counterproductive thing: Do not let the arguments and the difficult choices contained in the budget deliberations inhibit our attempts to offer constructive solutions. Our people want us to spend according to our means (and these means could shrink if the Revenue Forecasting Committee reduces their projection for available revenue when they meet in February) but they want much more.

They want a State response to the crisis we face in Agriculture.

They want a State response to the need to create new wealth, jobs, and growth.

They want a State response to the desire to improve our schools, colleges, and University.

They want a State response to the desire to preserve, protect and develop our natural resources.

They want a State response to the dislocation and suffering which will be evident in greater numbers in the coming years.

They want a State response to the need to help our poor, our disadvantaged, our disabled and our aged.

They want action and not just reaction as we work together to plan our future.

### Agriculture and Natural Resources

The first area where action is required is in production agriculture. We all know there is a crisis in Nebraska agriculture. We have seen unprecedented declines in the value of our assets and have in the past five years lost nearly \$20 billion in equity. Producers who have been regarded as our strongest and most substantial have watched helplessly as their net worth is eaten away by the cost of paying interest expenses in excess of what their income can handle.

Farmers and ranchers have gone broke and turned to other lines of work. Banks and other rural businesses have closed up never to reopen. The fabric of most of our rural communities is under some kind of serious and growing stress.

It is also true that the recitation of these difficulties can become overwhelming and counter-productive. It is not easy to grieve and to help those who need us now more than ever, while remaining hopeful that something can be done and being committed to do what is necessary.

In the midst of this uncertainty, we must not lose track of the positive qualities on which this state was built. We cannot afford to become so caught up in short-term problems that we lose the long-term vision of a viable and productive state.

Consistent with my belief that tomorrow will be better if we make the effort today I am proposing the following:

1. Allocation of General Fund dollars to match the Federal Commitment to build a Food Processing Institute at the University of Nebraska. Although we will not know the exact amount of money needed until the U.S.D.A. completes its feasibility study on February 1, I support the appropriation of the amount needed to hold the Federal Commitment of \$5.5 million. Senator Warner has a bill which will accomplish this and I whole heartedly support it.

There are three basic reasons why this Processing Institute will be one of the best investments we can make in our economic future. The first is that in the coming years there will be increasing numbers of opportunities for the creation of wealth and jobs. The unmet market needs of the future in processing, packaging, buying, selling, marketing, storing, and transportation will be filled by people who possess the knowledge and the skills necessary to identify and deliver them. The Processing Institute will insure that Nebraskans in increasing numbers will take advantage of these opportunities.

The second reason, is that the addition of value to the raw agriculture product enables us to reverse the colony like status of our State. Rather than trying only to compete with producers of other nations by trying to reduce the cost of our raw products, we will be taking advantage of the American gift for innovation and invention which in the long run this will enable us to attack and stay more competitive in the marketplace.

The third reason, is that the processing of our own products brings us closer to the marketplace and enables us to take more control of our own destiny. It will provide needed off-farm income and will also give us a more stable demand for the products we produce.

It is important to recognize that this proposal is designed to build on an existing strength. We have exceptional people with exceptional skills working under the direction of Chancellor Roy Arnold at the Institute of Agriculture and Natural Resources. And the processing industry is already present and strong in Nebraska. As evidence of this I cite the full endorsement of the Processing Institute by the University of Nebraska Board of Regents and the Food Processing Foundation, a recently formed organization composed of private and profitable Nebraska processors.

2. I am also proposing the creation of the Nebraska Agricultural Authority whose central objective will be to:

1. Increase the number of family farm units in Nebraska,

2. Stabilize the land market through an orderly disposition of ag land held by financial institutions, and
3. Provide a means for the farmer to be self-sufficient in today's trying agricultural economy without a government bail-out.

The Authority, as proposed, would exist as a quasi-governmental body capable of owning and selling real estate, capable of accessing the capital markets, and capable of making direct investments in agricultural enterprises.

As you may already know, we have begun discussions with the Farmers' Home Administration Nebraska financial institutions regarding the purchase and sale of farm land held by these institutions due to foreclosure proceedings. Currently, FmHA holds approximately 30,000 acres of farm land in inventory. We believe Nebraska commercial banks own a similar amount of land. It is important for all parties, and the State in general, that we provide a means for orderly transferring this land to private ownership, and back into productive use. I believe the Ag Authority is the proper vehicle to achieve this objective.

Additionally the Authority could enhance the availability of capital in rural Nebraska by creating a secondary market for loans to farmers and ranchers.

3. I also support the work of Senator Rod Johnson in the development of a State Farmstead Act. This will provide additional options for partial instead of total liquidation and will give producers that are facing foreclosure a way to remain on the land.

4. We must continue the work of the Farmers-In-Transition program which received the 1985 Distinguished Performance Award from the National Alliance of Business. The work of Mollie Anderson and Greater Nebraska Job Training Council has been outstanding.

With a one million dollar grant from the U.S. Department of Labor, we have been able to expand the program, now known as Ag-in-Transition. An integral part of this comprehensive assistance plan has been the establishment of six ag action centers across the state. These centers provide assessment, counseling and referral services to displaced and financially distressed farmers.

5. The Visions from the Heartland project has illustrated the depth of positive, community-based commitment that exists in this State. This grass-roots effort has involved over 500 Nebraskans discussing the future of their state, their region, and their communities. Rural communities, while under stress, are committed not only to survival but to prosperity and growth.

6. We must also continue our commitment to the natural resources which are the basic assets of our agricultural economy.

We must never underestimate the importance of soil and water to the vitality of our state. Topsoil is a productive asset only as long as it remains in the field. The amount I have included in my budget is the bare minimum required for this effort. The Natural Resources Commission has recently completed a Comprehensive Soil Conservation Plan that graphically and convincingly illustrates the dangers inherent if we ignore this important effort.

7. A high priority must be placed on the protection of our water quality. During recent years, the Department of Environmental Control has studied the technical aspects of ground water quality, reviewed the legal mechanisms necessary to protect ground water and developed a Ground Water Quality Protection Strategy. It is now time to implement that strategy.

I met recently with the chairmen of four legislative committees to discuss proposed ground water legislation for 1986. At that meeting, I emphasized that this administration will actively assist in passage of legislation concerning chemigation, underground storage tanks, well drillers licensing legislation, and legislation that will provide us with a mechanism to deal with present or future contamination in any area of the State.

Based upon this meeting, I believe we have an excellent opportunity to pass legislation that is fair, workable and effective in preventing ground water contamination. This State has an abundance of good quality ground water, and passage of the proposed legislation will be an indication to the citizens of Nebraska that we are going to protect this valuable resource for future generations.

### Economic Development

The proposals I have just outlined comprise the agricultural component of a larger economic agenda for Nebraska. In addition to rebuilding our ag economy, there is a need to diversify. States with a broad economic base are the most resilient. We must be prepared to take advantage of the opportunities presented by the information age.

Advanced technology industries are growing at an unprecedented rate. Nebraska has a strategic advantage with its strong telecommunications system. The challenge before us is to exploit that advantage and use it to solve problems and improve productivity in existing business, and to generate new business and industry.

We must face the reality that Nebraska taxpayers have limited resources to devote to an economic development initiative designed to capture the potential of advanced technology. A logical solution is to forge a partnership among those who stand to gain from advanced technology development, pool their resources, and

coordinate efforts. A partnership of this nature would enable a coalition of Nebraska leaders to direct resources strategically.

To help accomplish this, I am proposing the creation of a Nebraska Research and Development Authority. This Authority, comprised of leadership from the private sector, education, and state/local government, will evaluate, support, and encourage the development of ideas into commercially viable ventures. The initiatives of the Authority will be market-driven, seeking to transfer technological developments to the private sector for job expansion, to government for increased efficiency, and to the educational community for preparing Nebraska citizens for the future age. I am recommending that a \$2 million General Fund appropriation be made available for this purpose.

I visualize three components of the innovation process that will be addressed by the Authority. First, the Authority will direct resources to basic research, including the generation of new ideas and determination of their technical feasibility. The Authority is designed to compliment, rather than replace, existing technology transfer mechanisms such as the Technical Assistance Center.

Second, the Authority will provide a source of seed capital for the development and incubation of commercially-viable ideas. I am proposing that the Small Business Development Authority be merged into the Research and Development Authority for this purpose. Initial capitalization will be provided by Community Development Block Grant funds. Third, the Authority will provide linkages between venture capitalists and entrepreneurs with ideas ready for commercialization.

In allocating its resources, the Authority (and in a larger environment, state economic development policy) should be guided by a set of principles that address the economic needs of Nebraska:

First, emphasis should be placed on the development of businesses that export products and services outside the state. This will help to offset the capital we export.

Second, import-substitution businesses must be emphasized. Development of products and services that can replace those currently being imported will also keep capital in the state.

Third, development of high value-added businesses must be sought. These ventures typically employ skilled labor and advanced technology, and offer significant potential for increased per capital wealth in the state.

Fourth, emphasis should be placed on ventures which increase productivity of existing business. Technological developments which

improve the output/cost ratios of Nebraska businesses and agricultural operations should receive a priority.

Fifth, a priority should be placed on commercially viable ideas that diversify the state's economic base. We must seek out and develop new products and services that will expand our range of economic activity.

Finally, special consideration should be given to ventures which will operate in distressed areas or which are run by women or minorities.

The Research and Development Authority is without question a major initiative. It is also undeniably a long-term proposition. I would be less than candid if I told you there would be large-scale, immediate payoffs. Nevertheless, I feel passionately that we must be willing to make this investment, to build this partnership, to link the resources that will enable us to build our economy from within.

### Higher Education

I want to turn now to Higher Education.

Two months ago, during the Second Special Session, a most telling cartoon appeared in the Lincoln Sunday Journal-Star. It was one of those Paul Fell zingers we in the Statehouse are so fond of. The caption read, "After the Fall," and the sketch depicted some tottering pillars, a jumble of masonry, and a fallen lintel, on which was inscribed, "Nebraska Higher Education." At the time, many across the state accused us of presiding over the ruination of our postsecondary institutions.

That very recent, very gloomy political cartoon is instructive to us today. In a dramatic way, it shows us how a defeatist attitude can dull our determination and rob us of vision. It also dramatizes for us how a little resolution on our part can avert disaster. The fact is, we did not destroy NU, the State Colleges, or the Technical Community Colleges. Instead, you Senators rose to the challenge and provided the necessary revenue increases to strengthen the revenue base and avoid further cuts.

We are not out of the woods yet, but the elements of a long-term resolve to build a strong and up-to-date postsecondary education system are falling into place. "Linkage" -- traditionally a foreign policy concept -- is now being applied to our policy decisions to higher education. For instance, there can be no question that a vibrant learning enterprise is essential to a vibrant economic future. Likewise, we now see clearly that bare-bones education will only guarantee economic stagnation and a mediocre quality of life. So, higher education and economic development are linked.

What we invest and what we receive also are linked. The drama of the last day of the Special Session, once and for all, settled the "free lunch issue" as far as the University is concerned. Those of us

who truly want to see NU strengthened can no longer ignore the obsolescence of our revenue structure in a changing economy. Without a dependable revenue flow, we cannot have dependable financial support for higher education.

Finally, where we want to go with our universities and colleges, and how we propose to get there, certainly are linked. I submit to you that the toughest choices in higher ed are still before us, and they are not, at their root, financial. In many parts of the country, business leaders, politicians and educators have shown that they can join together to lift their states out of the doldrums. The key difference in those states, however, is that they are trying to manage their future, not trying to preserve the past. I am asking that you, the Legislature, together with the leadership of our institutions, with the faculty on whose teaching and researching skills and dedication we depend, and finally with our industrial and business leadership--that we all join to act for a better future for postsecondary education in Nebraska.

My basic budget offers a realistic 2.6% operating increase for higher education. We can provide needed financial stability for the learning process, rather than engaging in damage control. The framework provided by the Citizens Commission for the Study of Higher Education, identifies these opportunities:

--PROGRAM QUALITY AND EFFICIENCIES:

First, in the area of program quality and efficiencies, I will continue to encourage our governing boards and administrators to focus the offerings at their institutions.

One of the things that often isn't appreciated is the need for presidents and governing boards to make tough, long-term management decisions. In exercising oversight, we also have to leave them some latitude. Allowing institutions to retain savings they generate from reallocations should be a guiding principle of state policy. Only in that kind of environment can this state build true "Centers of Excellence."

--NEBRASKA'S ECONOMY AND QUALITY OF LIFE:

Second, higher education affects our economy and our quality of life.

The issue here plainly is not to protect a static set of campuses and programs against change and economic reality. We have to acknowledge that the wide-open days of higher education are over. In that limited sense, the "After the Fall" cartoon was indeed accurate. Instead, the issue for the 80s and 90s is judicious investment. My budget, therefore, provides funding for the crucial areas of research, development and incubation through the Research and Development Authority I have already described. Most of the state research and seed funding, not to mention the private dollars

that will be joined to the Authority, will in fact be available to our educational institutions. The difference is that these added funds will be targeted to specific areas. The Food Processing Institute is also targeting in an area of growth, strength, and great potential.

In the area of governance and coordination: there lies the biggest challenge. Privately, I have been told many times that we simply can't go on with two different boards for our four year institutions, or without state authority over the six governing boards of our public two-year institutions. LR 32, the constitutional amendment which you advanced to Select File last session, is a very good step in the direction of better governance and coordination. I urge you to send that proposal to the people, and give them the chance to decide, next November, whether or not the Regents should be appointed to staggered, six-year terms.

Other changes are needed as well. While we have three totally separate public higher education systems, our Coordinating Commission is down to almost nothing. My budget will allow them to maintain their tiny staff and to continue the important new academic program review process.

I hope you will reflect carefully on Nebraska's opportunities in higher education. The importance of our vision and stamina in support of this critical function of state government cannot be overemphasized.

I believe we must in Higher Education do two things simultaneously. First we must recognize the importance of new knowledge to meet the demands of the future. Our University, State Colleges, and Technical Community Colleges are all blessed with dedicated and gifted educators and administrators doing their best to provide us with the human skills we so desperately need.

Second, we must look into the future and attempt to direct our scarce resources into areas which will be most important. I believe that we will not only have to make difficult choices concerning the allocation of these dollars, but we will also have to constantly assess the standards of performance required for admission and retention.

#### Primary/Secondary Education

In the area of primary and secondary education: our schools remain the best long-term investment we can make in our future. Building schools for the future requires sound decisions made today about finances, curricula, fixed plant and equipment, personnel, and proper allocation and usage of resources. These sound decisions must be made by citizens whose commitment to self-government translates into service on local school boards and entry into this most difficult arena of politics.

Nowhere is the difficulty of making decisions about our educational system more evident than in the case of LB 662. Nearly

one year ago, this body took an historic and courageous step in adjusting our government to the changes we face now and in the future. I applaud your efforts and will work diligently to see that LB 662 is retained in November.

The opponents of this landmark legislation have at times resorted to misinforming the public about its impact. LB 662 is said to be the product of the dreaded teachers' union; that it will cause the death of rural schools and rural Nebraska; and that it simply provides a reason for higher government spending. While I respect the right of these people to present these arguments, I urge the citizens of Nebraska to consider calmly that LB 662 will bring Nebraska in line with the other states that it will increase government efficiency by reducing the number of governmental units in Nebraska, now among the highest in the nation; and that it will shift the support of our school system away from property taxes, enabling us not only to build better schools, but also a more solid foundation for economic development and growth.

We must also continue the drive for excellence in our schools that began with the enactment of LB 994. Emerging technologies and a global society will require our children to learn more science, math, and foreign languages than the children of 25 years ago. We need to put as much effort into ensuring that children learn these subjects as we do in recruiting a winning coach.

Much remains to be done, but our present state tax structure limits our options. I feel strongly that the future of Nebraska warrants an investment in the 994 educational enhancements. I will gladly support efforts to secure a suitable revenue source to fund LB 994 which will unquestionably improve the strength and quality of our schools.

### Government Reorganization

My decision not to seek re-election has created an opportunity for a review of the executive branch unfettered by the personal considerations of an incumbent Governor. While there are many areas of excellence within state government, there is considerable room for improvements that should lead to increased efficiency. My experience over the past three years has led me to the conclusion that some expansion in the authority of the Chief Executive is in order. Based in part on recommendations from task forces on management improvement and government reorganization under former Governors, I am proposing several changes in the organizational structure and management practices of state government.

These changes will, in my opinion, increase the responsiveness and accountability of state government to the executive elected by the people and thereby to the citizens of the state.

In addition, the passage and approval of the Gramm-Rudmann Deficit Control Act will almost certainly result in reduced federal funds for many programs. It will also increase the need for quick and coordinated responses to rapidly changing circumstances. If we are to efficiently manage the resources that are available we must have a management structure that makes sense. With potential federal fund reductions of about 1% for FY 86 and 8% for FY 87 a more streamlined organization is a necessity.

My proposals in the area of government reorganization fall into three general categories: First, creation of four umbrella agencies to coordinate the work of numerous agencies, boards and commissions in the areas of cultural affairs, public safety, professional licensure and natural resources; Second, the merger of several agency functions into other departments; and Third, giving code agency status to numerous independent agencies, giving the Governor authority to appoint the Director. In some cases, there is more than one improvement option, and I am open to your recommendations in those areas.

The objective in creating four umbrella agencies is to increase coordination, efficiency and accountability of numerous functions now handled by separate departments, boards and commissions.

The umbrella agencies, under the direction of an executive appointed by the Governor, will serve as the coordination mechanism. The existing agencies would retain their current structure as divisions within the larger department. The boards and commissions would continue to advocate priorities, assist in policy development, and retain any regulatory authority they may have.

The Department of Cultural Affairs is designed to coordinate many current activities in the area of cultural enhancement. Entities that would operate under this umbrella include the Nebraska Arts Council, Library Commission, Humanities Committee, Sheldon Gallery, State Historical Society, and ETV Commission. The Department of Public Safety combines several agencies and commissions that deal with safety standards and regulations. The division of structural safety would include the State Fire Marshal, Safety division of the Department of Labor, Electrical Board and Division, Manufactured Housing Board, and Mobile Home/RV Board. Other commissions included under the Department of Public Safety are the Racing Commission, Athletic Commission, Parole Board, Liquor Control Commission, and Crime Commission. I have specifically excluded the State Patrol; I feel the interests of the public are best served if the Patrol remains as a free-standing Code department.

The Department of Professional Licensure will oversee several boards and commissions that regulate various professions, including

the Boards of Engineers and Architects, Land Surveyors, Landscape Architects, Public Accountancy, Abstracters, Real Estate, Barber Examiners, and the Collection Agency function of the Secretary of State. These agencies, which are mostly small, will better serve their clientele once they no longer have to handle personnel, budgeting, and accounting on their own. More importantly, citizens will have a central location for licensure and professional standards information. This arrangement currently works well for health professions in the Department of Health.

The Department of Natural Resources will combine the Natural Resources Commission, Department of Water Resources, and the UNL Conservation and Survey Division. This change will consolidate the bulk of Nebraska's water and soil data analysis and planning functions.

The second category of reorganization proposals is the merger of several functions into different departments. These changes are designed to combine related regulatory and program functions in a more logical fashion, and include the following:

1. Transfer of the revenue and recordkeeping functions of the Department of Motor Vehicles to the Department of Revenue, and the Highway Safety Division to the Department of Roads.
2. Merger of the Foster Care Review Board into the Dept. of Social Services.
3. Merger of the Departments of Banking and Insurance.
4. Merger of the Public Employees Retirement Board and the Investment Council.
5. Merger of the Hearing Impaired and Visually Impaired Commissions and the Vocational Rehabilitation Division of the Dept. of Education into the Dept. of Social Services.
6. Merger of the Board of Barber Examiners with the Health Dept.

Finally, in the area of reorganization, I am proposing that the Governor be granted the authority to appoint the executive director of nine boards and commissions, including:

1. Liquor Control Commission
2. Library Commission
3. Real Estate Commission
4. Postsecondary Education Coordinating Commission
5. Historical Society
6. Arts Council
7. Electrical Division
8. Racing Commission
9. Motor Vehicle Industry Licensing Board

In addition to reorganization, I am offering two executive management changes for your consideration. These proposals are

designed to give the Governor and the agency heads he or she appoints more flexibility in building the executive team.

First, I firmly believe all statutory qualifications and requirements for agency heads appointed by the Governor, with the exception of the Director of Health and the Adjutant General, should be eliminated. The current stipulation associated with many executive positions have proven to be a serious limitation on the Governor's ability to hire effective managers. Legislative confirmation should be the only formal requirement. The two exceptions I cited are unique cases where the expertise of a physician and previous military experience are justifiable requirements.

Second, the number of exempt positions within agencies should reflect the size of the department. At present, very few upper-level management positions turn over with a change in administrations, particularly in large departments. I am proposing that the number of exempt positions within code agencies be proportional to the number of departmental employees.

Finally, I feel strongly that the demands placed on the constitutional offices of Governor, Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Auditor, and Public Service Commission warrant an increase in compensation. I am endorsing concept of the phased-in salary increases for these offices contained in LB 43 developed by Senator Landis and the Government Committee. I am also encouraging you to give strong consideration to legislation dealing with the salaries of our judiciary which is needed to keep us in a position to attract and retain the most competent judges possible.

### Budget

The budget and revenue recommendations I am presenting to you assume the reduction of the income tax rate from 20% to 19% and no increase in the sales tax rate. At their recent meeting, the Economic Forecasting Advisory Board projected net revenues for next year of \$867.5 million. After the necessary adjustments, deficits, repayment of the Cash Reserve Fund, the available revenue for FY 86/87 is \$869.1 million. Subtracting the required 3% reserve would leave \$843.8 million for next year's budget. That amount should be adequate to meet the legitimate needs of the State and its citizens.

It is safe to assume that during the course of the session there will be some differences of opinion as to how those dollars should be allocated. We were all elected to voice those opinions. We have a responsibility to ourselves and our constituents to advocate our positions. In these difficult times, however, I believe that we have a higher obligation to our taxpayers and that is to do what is necessary to live within our means. The economic sacrifices cannot be limited

to the budgets of the family, the farm and the business--we must apply the same constraints on ourselves.

The details of my recommendation have been provided to you and the various proposals will form the basis for much of the discussions during upcoming weeks.

The overall General Fund recommendation is \$841.0 million which is 3.7% over the budget adopted in the Special Session.

The recommendation is distributed as follows:

State government operations would increase by \$8.6 million or 4.4%.

Higher Education--a \$5.4 million increase or 2.6%.

State Aid increases by \$26.5 million or 6.7%.

Included in my budget is a 3% salary increase for State employees. Including higher education and State operations, the cost of that increase is approximately \$10.5 million. We cannot afford to ignore that, in the final analysis, it is the quality and dedication of our employees that determines the success or failure of our efforts.

#### Capital Construction

My recommendation for Capital Construction for 86/87 continues the major projects that have been previously authorized.

I am recommending that we authorize the University to issue bonds for the construction of the Animal Science Building in Lincoln and the Lab Science Building at UNO. By pledging a portion of our cigarette tax revenues for five years, we will be able to reduce the General Fund obligations for next fiscal year by almost \$9.5 million. This will allow us to proceed on these two important projects taking into consideration the present value of money will also save us costs in the long run. In addition, I remain committed to the construction of the Lied Center for Performing Arts. This project will contribute greatly to our State and our University.

For the Department of Corrections, I am proposing that we begin the process for the construction in FY 87/88 and FY 88/89 of a new Adjustment Center at the penitentiary. During the past several years Nebraska has wisely invested significant resources to the construction of correctional facilities. As a result, we have not faced the tremendous problems faced by many other states in this area. We need to continue that forward working philosophy and avoid problems rather than being forced to try to correct them after the fact.

Finally, I am recommending a \$1.0 million increase for the 309 Task Force. The source of funds would be a lapse of unneeded cash funds from the Department of Insurance. Perhaps no other program that we operate can be so directly linked to actually saving the State money as the wise maintenance of our physical facilities. Whether for

energy conservation, timely repairs or preventive improvements, these expenditures return great benefits in the future.

In regards to Commonwealth, I remain strongly convinced that the state has a moral obligation to the depositors of Commonwealth. We have approved a partial remedy; but further action is needed to satisfy the full \$20.5 million obligation. I am offering three alternative proposals to deal with Commonwealth, any one of which I will approve if it reaches my desk.

1. State Office Building Lease/Purchase. The City of Lincoln would issue tax-exempt bonds on behalf of the state to generate funds for the depositors. To secure the bonds, the State would provide a first lien on the State Office Building in addition to the lease agreement.

2. Tax Credit. This legislation would grant a tax credit to depositors in the amount of their loss. The credit would either be taken against Nebraska income taxes or sold to someone who could make better use of the credit.

3. Motor Vehicle Sales Tax. The proceeds from the motor vehicle sales tax will be placed in the Commonwealth relief fund for six months. This length of time should be sufficient to raise the necessary \$12 million.

I urge your approval of one of these options as a means to bring justice to Commonwealth depositors.

In the area of tax reform I will continue to argue that Nebraska citizens are best served by a tax system which has a minimum number of deductions and exemptions. These items, which all make sense when taken in isolation, over time and under the stress of accumulation, require our citizens to pay higher rates than they would if they were not granted.

This narrowing of the base on both the sales and income tax side does more than force us to tax at rates that are higher than would otherwise be required. They also lend a tint of privilege to our taxes which works against the average citizen who is not represented by the special interest which is needed to lobby for special tax favors. Taken together this means that fewer people support government services than benefit from them and that greater numbers of Nebraskans continue to correctly conclude that their tax system is not fair.

I urge this body to consider carefully the recommendations of your special committee which is studying a sales tax on services. Further, I urge you to begin the discussion of the wisdom Nebraska granted all deductions and exemptions granted by the federal Government against our income tax. I pledge to work closely with your revenue committee to discover if we can accomplish what will unquestionably be a major benefit to public confidence in their taxes.

There are many other important things which are included in this budget.

Our efforts to protect ourselves by hiring law enforcement people, by hiring the best to run our correctional facilities, by recruiting a just and fair judiciary, and by ensuring that they have the finest training ensures that our freedoms are full and complete.

Our efforts to care for our citizens who cannot afford the cost of medical services and nursing homes; our struggle to provide for the poorest of our neighbors; our fight to guarantee a life of hope and health to our neighbors who are mentally retarded or mentally ill; our work to keep our environment healthy and free of life robbing pollutants; our continued investment in our roads and bridges; and our spectacularly successful creation of the best parks in the entire nation will be rewarded by a State of which we can rightly be proud.

To fully live up to the fullest potential as representatives of our people we must in this short legislative session pay homage to those citizens who have preceded us with lives of sacrifice and dedication. We can only deliver this homage by rededicating ourselves to service that is committed to justice, to equity, to prosperity and to the happiness of all our citizens.

When our forefathers were faced with a similar dilemma fifty-odd years ago they simultaneously embarked upon a remarkable exercise in creativity. This spectacular capitol was fashioned in tough times. The landscape architect plucked trees from citizens' lawns in order to provide beauty to capitol grounds. Today I shall charter a similar effort that will put one of the finishing touches on Goodhue's world renowned landmark.

I am reactivating the capitol murals commission to complete the mural program designed for the capitol's 14th floor, Memorial Hall. These eight mural panels, as originally conceived, will honor those Nebraskans who made the supreme sacrifice for our state and nation during civil and military service.

This structure has been and will continue to be a source of pride for all Nebraskans. As such, we owe it to those who had the courage to build it, the same kind of dedicated spirit this building symbolizes. Let's make this mural project a special gift to all Nebraskans at a time when we need to be optimistic.

The committee escorted Governor Kerrey from the Chamber.

### **EASE**

The Legislature was at ease from 10:45 a.m. until 11:03 a.m.

### **MOTION - Adopt Permanent Rules**