

(Signed) Howard Lamb, Chairperson

### Nebraska Retirement Systems

LB 308	Monday, February 9, 1987	12:00 noon
LB 549	Monday, February 9, 1987	12:00 noon
LB 408	Wednesday, February 11, 1987	12:00 noon
LB 409	Wednesday, February 11, 1987	12:00 noon

(Signed) Rex Haberman, Chairperson

### UNANIMOUS CONSENT - Add Co-Introducers

Mr. Conway asked unanimous consent to have his name added as co-introducer to LB 385. No objections. So ordered.

Mr. Conway asked unanimous consent to have his name added as co-introducer to LB 116. No objections. So ordered.

### MOTION - Escort Governor

Mr. Barrett moved that a committee of five be appointed to escort the Governor to the Chamber to deliver the State of the State and Budget Message.

The motion prevailed.

The Chair appointed Mr. Beyer, Mesdames Marsh, Langford, Labeledz, and Ms. Scofield to serve on said Committee.

The Committee returned and escorted Governor Kay Orr to the Rostrum where she delivered the following State of the State and Budget Address:

Mr. President, Mr. Speaker, members of the Legislature, my fellow Nebraskans:

I am here today in fulfillment of the Governor's responsibility under Article IV, Section 7 of the Nebraska Constitution to present "a complete itemized budget of the financial requirements of all departments, institutions and agencies of the state and a budget bill to be introduced by the Speaker of the Legislature at the request of the Governor."

The legislative history of this provision in our Constitution makes it abundantly clear that the budget bill proposed by the Governor is to be used by the Legislature throughout the legislative process.

I respectfully ask that you comply with that intent.

That is not to suggest that this is a take-it-or-leave-it proposal. I am well aware of the proposition that the Governor proposes and the Legislature disposes; however, the clear purpose of this constitutional provision is to allow the tax-paying citizens to compare the Governor's budget with the actions of the Legislature. I am prepared to work with the Legislature cooperatively throughout your consideration of the budget.

In addition, the budget I present today is in compliance with the provisions of LB 258 which the Legislature passed last year requiring the submission of biennial, rather than annual, budgets. Thus, we return to the procedure used prior to 1971 when the Legislature began its current practice of meeting each year. I support the objective of LB 258 because it restores a sense of stability to the budget process.

And stability is what this budget is all about.

For too long in Nebraska we have witnessed erratic swings in the fiscal affairs of state government--a kind of economic rollercoaster ride that in the past six years resulted in four special sessions to cut budgets in mid-year. The effect has been to create doubt and uncertainty, certainly for those responsible for administration of the programs funded by the budget, but for the public at large as well.

The disruptions and inefficiencies created by this unstable budgeting process have cost us more than dollars and cents. They have exacted a high price. These practices have weakened the public's confidence in the ability of elected officials to manage the state's affairs.

We need to restore confidence by putting forth a budget and a revenue system that generates stability, not just for the next two years, but for well into the future.

In my inaugural remarks, I noted the great debt Nebraskans owe to our ancestors, those hardy pioneers who persevered against great odds with honesty, frugality and integrity. But, in our turn, we will one day ourselves be ancestors and we have a responsibility to the following generations to see that the legacy left them is equally worthy.

Two days ago I announced my tax package, the first change in the Nebraska tax system in 20 years. A proposal that meets the essential criteria of fairness, stability, simplicity, and revenue neutrality.

By basing our state taxes on the federal adjusted gross income we retain all the advantages of our current system, without having to endure the wild swings generated by changes in the federal tax code.

Using an average income tax rate of 3.47 percent, our total tax system will generate the \$898 million necessary to fund my budget without a tax increase.

There is also good news for corporations in my tax plan. By phasing in changes in the unitary formula to base corporate taxes only on sales in Nebraska, we gain significant competitive edge over surrounding states in the battle for jobs through economic development.

It is expected that the effect of the corporate tax change will be offset by increases generated by more jobs and more investment dollars in Nebraska.

After adjusting for the Nebraska tax proposal; providing for a minimum of 3 percent reserve; and factoring in estimated balances, lapses, and deficits, the maximum funds available for budgeting amount to \$862 million the first year and \$907 million the second year.

The budget I place before you today proposes a General Fund appropriation for the next fiscal year of just under \$862 million. After adjustment for the reductions made in the December special session, that figure represents an increase of 3 1/2 percent over this year.

Were it not for the deficits, the increases in my budget would be 1.7 percent.

For the second year of the biennium, I am recommending a figure of just over \$876 million, an increase of 1.7 percent over my 1987-88 proposal. The overall increase for Fiscal 1987-1988, including a 3 percent salary adjustment package, and \$2.8 million for "A" bills is roughly \$29 million or 3.5 percent. This provides for a \$9.9 million or 4.8 percent increase to state operations; \$5.7 million or 2.6 percent increase to higher education; and \$15.3 million or 3.8 percent increase to state aid.

My budget proposal provides for a 3 percent reserve for the first year and a 6.6 percent reserve for the second year.

This budget fulfills my commitment of no tax increase.

This is a transitional budget, one tailored to reflect the economic realities of 1987 and 1988, but also one which lays a firm foundation for growth and development in the future.

In just over a dozen years, we'll enter the 21st Century. Long before then, I am convinced that with devotion and dedication, we can bring about a significant upturn in the state's economy and this budget will position Nebraska to realize the benefits of that improvement. Our exercise today of prudence in our stewardship of scarce financial resources will serve us well as we stand on the threshold of a new millenium.

When I took office, I faced budget requests from state agencies of \$1.9 billion.....\$956 million for the first year of the biennium and \$985 million for the second year. These amounts did not include any salary adjustment. They would have represented an increase of almost 15 percent over the current appropriations. These numbers represent the collective judgment of agencies of state government as necessary to carry out the existing mandates of the Legislature in delivering current services and programs, but we must live within our means.

My budget recommendation for the first year represents almost \$100 million less than was requested.

We are currently faced with \$17.9 million in deficit requests. Included are \$6.5 million for Special Education; \$1 million for Homestead Exemption; \$1.6 million for AFDC; \$2.3 million for child welfare-state wards; \$1.5 million for the Bassett transmission tower; almost \$2 million for Wastewater Treatment; and \$1 million for the Department of Corrections; as well as many other smaller requests. Most of these requests represent entitlement programs for which little or no discretion is available.

In addition, under existing revenue projections no reserve will be available on June 30, 1987.

Faced with that sobering picture, and after long--and often painful personal--hours spent in an agency-by-agency, line-by-line review and appraisal of state government activities, I have concluded that what is required is a reordering of priorities in a manner calculated to produce the most cost-effective result.

To achieve that a number of decisions were reached:

During the Special Session last December, the Legislature cut \$6.5 million out of the current fiscal year. It is imperative that we "annualize" the reductions made in the special session, that is, carry them forward into the next two years. This will reduce appropriations for the coming year by \$11.1 million.

Other reductions in existing programs are necessary in order to meet our commitments to ongoing entitlement programs, to provide for salary increases for state employees and to move forward on other limited initiatives.

I support the revisions of the Homestead Exemption program that will save \$5,270,000.

This budget calls for the elimination of certain optional medicaid services and will require other cost-saving measures in this growing program.

I am recommending a phaseout of General Fund support for the so called advocacy agencies. This phaseout period will provide time for them to secure alternate sources of funding and to that end I pledge my full support.

I am recommending that the Liquor Control Commission be abolished. With local licensing, and the transfer of enforcement to the Nebraska State Patrol, it simply makes good sense to transfer the only remaining functions--principally tax collection--to the Department of Revenue.

We must look to the future and education provides the promise of tomorrow. Education is a sacred trust inscribed in our Constitution and places a heavy responsibility on the state to ensure quality education for our young citizens. We must also meet the changing educational requirements of our technological society. Over the years we have provided a variety of programs to address the funding needs of select components of the educational system. This disjunctured approach has resulted in a patchwork mentality rather than a unified focus on quality education for all our citizens. It is the total system that needs our attention now.

As a beginning step toward a more logical funding approach, I am prepared to restore the annualized cuts made to state aid to education in the amount of \$3.8 million. In exchange for this action I am proposing that local school districts pay the educational costs of wards of the court. My recommendations for special education include an increase of \$4.8 million for the first year of the biennium and \$8.8 million for the second year. Special education continues to be one of our fastest growing programs. It must be viewed in the context of overall aid to education and I am prepared to work with you in developing better ways to meet the needs of our educational system.

Our Technical Community College System and the State College System fill an important function in meeting the needs in the area of higher education. Too often they are viewed as the step-sisters of our university system. They must be seen in the larger context as an integral part of higher education. At the same time we must recognize that the independent colleges are an integral part of that overall education system, and we must cooperate with them in fashioning a plan of action in the higher education field.

My recommendations for the state colleges include \$736,000 for the first year and \$517,000 in the second year to provide for critically needed administrative computing capabilities. My recommendation also includes \$226,000 for each of the two fiscal years to provide for a 7 percent retirement contribution as a matter of equity.

A special role that higher education must fill as an essential partner is the economic revitalization of this state.

University of Nebraska President Ronald Roskens has spoken forcefully of the need for change, and directed the university community toward a future that requires commitment, compassion,

and planning. His vision of a renewed university, streamlined and strengthened to better meet its substantial obligations, is one that I commend to all Nebraskans. The spirit of his remarks reflected a vigor that will serve us well as we advance confidently toward the future.

Consistent with this perspective, I am including within my budget recommendations \$1,150,000 for the biennium for university research and technical assistance to enhance our economy. The funds will be allocated to the Universitywide administration and distributed pursuant to guidelines that they develop. It is, however, my expectation that the funds will be used to create and foster intercampus, interdisciplinary projects that address this state's most pressing needs. In particular, the university should work closely with state government and the private sector to fashion new partnerships designed to revitalize this state.

Entrepreneurs and venture capitalists should be able to turn to the university for answers to the complex questions that arise when creative ideas are transformed into vibrant businesses. In our highly competitive and intensely regulated economy, it is not enough simply to have good ideas. We will accomplish little if our next breakthrough in biotechnology cannot be licensed or marketed. We will not prosper if small businesses and entrepreneurs cannot survive, or are unable to exploit engineering breakthroughs, or expand franchises to meet their true potential.

I am including funding for veterinary student contracts and operating costs for the veterinary clinic at the Meat Animal Research Center. I am including \$500,000 for the first year and \$750,000 for the second year for biotechnology and food processing. Also included is funding for the Small Business Development Center at UNO in the amount of \$150,000 for the first year and \$250,000 for the second year. Extension and Research are important responsibilities of the University mission and I have provided an additional \$373,000 for each of the two fiscal years for these activities.

In addition to those economic development programs associated with the university, my budget contains a continuation of funding for the Research and Development Authority by providing an additional \$2 million for each of two years of the biennium. I am also providing \$500,000 each year to the Department of Economic Development for additional job creation activities. My recommendation includes \$100,000 for the first year and \$150,000 for the second year for technical college job training programs.

Over the two-year period, the budget provides \$3.7 million in increases for agriculture and natural resource activities, including additional funds for agricultural promotion, \$2 million for the

Resource Development Fund and \$672,000 more for wastewater treatment. In that regard, I am proposing that the state create a revolving fund to finance wastewater treatment facilities. As you know, federal grants for such facilities are being phased out and the Clean Water Act requires a 20 percent match by the state. My recommendation includes funding to pay off the cash flow obligations for the existing state grants and provides for \$500,000 the first year and \$2 million the second year to establish a revolving fund to match with federal funds under the phaseout plan.

In the area of human services we have an obligation to meet the critical basic human dignity needs of our fellow citizens who are less fortunate. We are of course faced with many ongoing entitlement programs. My recommendations include over \$6 million in the first year and \$13.7 million in the second year for increased Medicaid costs. Included for the biennium are increases of \$2.8 million for child welfare; \$2.8 million for AFDC; \$2.2 million for Title XX (twenty); \$1.4 million for Job Support; \$850,000 for Veterans Home operations; and \$1.0 million for BSDC/Regional Center operations.

In the area of Justice and Law Enforcement, I have included items necessitated by increased demands. For the Supreme Court I am providing \$195,000 each year for reclassification of County Court Employees and \$128,000 each year for additional probation staff. For the Department of Corrections I am proposing \$2.7 million for population increases and \$2.2 million for Hastings Correctional Facilities operations.

I am continuing the funding plan for the purchase of repeaters and mobile radios for the Nebraska State Patrol. This will provide much needed two-way communications for the women and men who work long and stressful hours and who are asked to put their life on the line day-in and day-out for our protection.

The budget for Capitol Construction totals \$21.4 million in the first year and \$29.6 million in the second year from all fund sources.

Due to financial constraints and prior commitments, we are limited to very few new project starts. My recommendations for the biennium provide for continuation of funding for the major projects that have been previously authorized. Those reaffirmations include bond payments for building renovation and land acquisition at the university and state colleges and the Nebraska Law Enforcement Training Center in Grand Island. Also included in ongoing funding for the Lied Performing Arts Center, Animal Science, and Clinical Facility at the University of Nebraska at Lincoln and Lab Science at the University of Nebraska at Omaha. I am recommending that the Department of Public Institutions, the Department of Correctional Services, the state colleges, and the university be

authorized funds to carry out various projects dealing with fire and life/safety and miscellaneous renovation of existing facilities, such as substandard classroom and teaching lab improvements and remodeling.

For the Game and Parks Commission, I am proposing the construction of a fish hatchery at the Calamus Reservoir. This project will be funded from cash funds, federal funds, and private donations.

I am recommending \$2.5 million per year for the 309 Task Force. This program is directly linked to saving the state money over the long term. The Legislature is to be commended for establishing this innovative program.

The past eight years that I have spent in this capitol building, first as a member of the Governor's staff and then as State Treasurer, have convinced me that we are more fortunate than most of us realize to have in our service dedicated and conscientious women and men who day in and day out perform their jobs with skill and efficiency. They deserve compensation that is fair and commensurate with their considerable contribution to good government.

I have set aside \$12.8 million to be used for a 3 percent salary and benefit adjustment for the coming fiscal year and have proposed a spending level for the second year of the biennium which will accommodate additional adjustments.

As you know, we are entering a critical period in the history of labor-management relations. I have convened a task force of labor and management leaders to review collective bargaining and to recommend a plan of action to implement that process in a manner fair and equitable to all parties including the taxpayer. In order that this process may go forward unencumbered, I am recommending that the Commission on Industrial Relations embargo be extended for an additional year to allow government and its employees time to reach agreement through good faith bargaining.

If government is to perform its function in an efficient and effective manner, it must be able to reward those who perform in a superior manner. Accordingly, I am preparing an incentive pay plan which will allow for performance-based compensation.

It is fair, I think, to observe that not everyone will agree with my priorities as expressed in this budget. Throughout this process, I have had the advice of many sincere and well-meaning women and men urging that there be increased funding for this program or that department.

While I listened carefully and sympathetically, I found that, in good conscience, I had to rely on the admonition we have been hearing in another context: "Just say no." As we move through the legislative consideration of this budget, you may find that advice

useful. Saying no when one would like to say yes is not easy; it requires political courage and personal character.

It is fitting to reflect that when the first Unicameral met in this chamber 50 years ago, it was the realization of George Norris' dream of a body of independent lawmakers who could say no to the special pleaders, citizen-legislators who would be more directly accountable to their constituencies. It was a dream that grew out of Senator Norris' frustration in Washington where he saw bills on which he held strong convictions killed in committee or fatally weakened by compromise because his colleagues submitted to pressures from outside the Senate.

I would like to think that, confronted as we are with severe constraints on our fiscal resources, George Norris would view this budget with understanding favor; that he would agree that our responsibility--yours and mine--is to do what we perceive is best for all Nebraskans.

In these difficult days, I suggest that what is best is to follow a policy of restraint, to undertake to restore stability, to insure that we are investing our citizens' taxes in the most efficient and productive ways we can devise.

This is a particularly critical time for those of us charged with governance of our state. We have the opportunity to respond to our constituencies' calls for restraint in taxation and spending during a time of economic distress, or we can listen to those who believe we must take on an even heavier financial burden.

Whichever course we take, the implications for the remaining years of this century are profound.

The direction I suggest is that we maintain those necessary functions which serve our people, work hard at improving the economy and seek patience and forbearance from those who disagree.

The challenge we confront is imposing. Ours is a formidable task. It is a time to remember the words of Phillips Brooks, the 19th century poet who counseled, "Do not pray for tasks equal to your powers. Pray for powers equal to your tasks."

Thank you.

The Committee escorted Governor Orr from the Chamber.

### BILLS ON FIRST READING

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

**LEGISLATIVE BILL 762.** By Speaker Barrett, 39th District, at the request of the Governor.