

The Chair appointed Mesdames Langford, Morehead, Campbell, 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.

STATE OF THE STATE ADDRESS

Mr. President, Mr. Speaker, ladies and gentlemen of the Legislature, my fellow Nebraskans:

It is my duty this morning and, indeed, a pleasure to report to you and to all Nebraskans on the state of our great state.

Based on an objective assessment of our progress and with proper regard for the challenges before us, I can report to you the following:

*Conditions in Nebraska are measurably improved.

*We are living within our means.

*As promised, we have not had any special sessions.

*The spirit of our citizens is healthy.

*There is sound reason for optimism and confidence.

*The foundation we have laid for a better Nebraska is a good one.

We have demonstrated that we can make a difference in the future of Nebraska. The course we charted together last year reflects vision and dreams of what can be. Together, let us continue on that course of progress.

Today I want to review with you...where we were...where we are today...and where we are going.

First...where we were: When we assembled here in January of last year,

*The general fund balance was near zero.

*We were confronted with approximately 20 million dollars in deficits.

*The Legislature had just finished the fourth budget-cutting Special Session in six years.

There was doubt about the ability of state government to manage its economic affairs. There was disagreement across the state concerning the future of our state's educational system.

We were confronted with a drastic change in the federal tax structure, a change which required us to take action at the state level.

There was pessimism in the business community across the state about the long-term viability of our economy. And there was evidence that our young adults lacked confidence in their future in Nebraska.

How did we respond? We...you as the Legislature and I as the Governor...took bold and decisive action...even though that action was not without risk...to come to grips with our problems.

I'm grateful for the support you gave to the initiatives of my administration to restructure our individual income tax system into a program that is fair to all our citizens...a program that restores stability...a program that maintains a simplicity of administration.

Your enactment of LB 775...with its performance-based incentives...is destined to produce more and better jobs for our citizens. The adoption of LB 270, and equally important measure, offers economic incentives to small business growth and job creation in both rural and urban areas...and includes farming and ranching operations.

In my Inaugural Address I brought you a message of optimism, tempered with realism; a message of hope leavened by pragmatism. While many challenges still remain, we are turning the corner. I am pleased to report that our optimism was not unfounded. This is where we are today. The people of this state are feeling a renewed confidence...and, more important, that confidence is reflected in their actions.

I have experienced this new spirit in each of the communities where we have established our "Capital for a Day"...and in my many other contacts with the people of our state. We truly have made a difference.

People's faith in their government in being restored because they have seen that government can act effectively and wisely.

There is something good happening in Nebraska...something that reflects a renewed vitality, a restored confidence, a reason to look forward to a better tomorrow. While difficulties remain, we have seen some improvement over the past year in the income of many Nebraskans engaged in production agriculture.

The way has been led by the livestock sector, and that is significant because nearly two-thirds of our state's gross income from agriculture is derived from livestock. That is good news. Still...we must not forget those farm families and rural communities where social and financial stress continue.

There is no single all-encompassing solution to this problem. It will take all our best efforts, working together, in a variety of ways, to steer the course for Nebraska in these times of transition.

As a result of the Legislature's action last year, an agricultural promotion and development unit has been established in the Department of Agriculture.

Its prime purpose is to help find new markets for our farm products. This unit, in collaboration with our commodity checkoff

boards and the University of Nebraska Food Processing Center, is working hard to open doors to new value-added markets.

Similar to our successful statewide economic development conference this past summer, planning is now underway for a statewide conference on agriculture to explore new means for strengthening our No. 1 industry.

The thrust of the conference will be to assess the opportunities available to us to adapt to the global changes in agriculture and to enhance our ability to compete in world markets.

While working toward the long term viability of agriculture, we must not forget one specific challenge which must be faced immediately.

That is, to determine a constitutional and equitable formula which will recognize the income-producing potential of agricultural land as an appropriate means of determining value for tax purposes.

We have already seen the success of performance-based programs in economic development: Thousands of new jobs are being created across the state.

We've reported to you on numerous occasions the number of companies that have applied, the projected dollar investments, and the number of jobs that will be created. It's a statistical record of which we can all be proud.

While the numbers are impressive, what we're really talking about is people, and their jobs, their attitudes, and their futures. A job is not just a number. It is the opportunity for those born and educated in our state to have a meaningful life in Nebraska. It's self-esteem and confidence...a family kept together and cared for...the mortgage being paid...dollars for educating our children. We have made a good beginning.

But if we are able to realize the potential which is ours, we must apply all our diligence, all our intellect, and all our available resources to address a disturbing trend which threatens our future.

There is a saying: "Solutions can't be found until problems are stated correctly." Let me state the problem: Nebraska has experienced substantial migration from our small towns and rural areas in the first 6 years of this decade. Only 6 of our 93 counties had net population growth during this period. There is evidence that in the last 2 years there has been a net population decrease due to outmigration. The largest outmigration was by a group we can least afford to lose, those between 25 and 39 years old...highly trained employees, managerial, professional, technical and skilled labor. If this loss continues, it is predicted that Nebraska's average population will be both older and less affluent. This loss will reverberate through future generations.

Why are productive young citizens leaving Nebraska? The answer is deceptively simple: They feel that they lack opportunity here. While we sometimes express satisfaction that our unemployment rates are relatively low, the harsh fact is that during the 1980's, employment in Nebraska has increased at a pace below the national average. While this trend is disturbing, it represents both a challenge and an opportunity...if only we have the will and the dedication to seize them. We cannot rest. It is our responsibility to build on the progress we have made...progress that in just one year is remarkable. But we still have so far to go.

We must provide for those who want to make a life in Nebraska the opportunity to work and earn a good living here. I'm talking about our sons and daughters, our nieces and nephews, and our neighbors and friends and their children.

The formula is a simple one: New jobs and a diversified economy mean less outmigration and an expanded tax base. Impatient as we all are to meet this challenge, we must recognize that the problems we face were not created overnight, nor will they be immediately overcome. We must stay the course, building on the foundation we have established.

Let me just say: The answer does not lie in increasing taxes. The answer lies in bolstering the economic vitality of our state by providing Nebraskans the means to earn a good living. That is where we are.

Now...in looking forward to where we are going, let us remember that during the past legislative session we charted a visionary course and adopted policies to provide for Nebraska's future in a changing economic world.

Our goal was to sustain and build upon our heritage of the good life in Nebraska...to become competitive for jobs...to develop opportunities, and to provide a basis for economic diversification and growth. We must continue to build upon the foundation we established last year.

We have now returned to a Biennial appropriation process, the first in twenty years. It is incumbent upon us to ensure that this process works. During the first session of the 90th Legislature, appropriations were made for the two year period which began last July 1.

Those actions taken by your body and approved by this Governor were intended to meet the continuing funding needs of state government...to provide those services which are essential for the good of our citizens and which are within their ability to finance.

The General Fund appropriations already established for this biennium include 886.7 million dollars for the current year and 915.1

million dollars for the upcoming fiscal year. The budget for the second year of the biennium includes already approved increases of 28.4 million dollars or 3.2%. Included in this increase are 11.8 million dollars for salary increases, 14.9 million dollars for increased aid to individuals and local governments, and 1.6 million dollars for additional operations of state government.

If we are to make the biennial budget process work, we must avoid approaching the budget on an annual basis. It is extremely important that the decisions we make today can be sustained in the future. We must not allow ourselves to succumb to the temptation to allocate funds to new programs, for which funding cannot be sustained. There is nothing more disruptive to the operation of government than mid-year special session budget cuts.

While we must continue to be prudent, the opportunity exists to make carefully selected investments in the future of our state...but...we must do so **WITHIN CURRENT TAX RATES**.

The Nebraska Economic Forecasting Advisory Board advises us that we can expect additional revenues of 45 million dollars in the current biennium. Those revisions will allow for limited new initiatives which I strongly encourage be directed toward the education of our young people.

There is no single issue more important to the future of Nebraska than education. Currently, funding for education represents 47% of our state's expenditures. This reflects the deep support Nebraskans have for education. I want to strengthen our tradition of that strong support because I believe it reflects our visions and dreams of what can be done, and what must be done, for our children.

We Nebraskans should be proud of our educational system. By virtually any standard of participation and educational attainment, our system compares favorably with those in other states. But because previous tax and planning policies made our state's fiscal condition very volatile, long term educational goals and essential government programs were not allowed to reach their full potential in the environment of constant mid-year cuts.

Last year I proposed several initiatives to reverse that trend. These programs to increase funding to improve the quality of education in our state must be continued. Using the additional revenues projected, I propose a number of budget initiatives in the field of education. There may be people who will say that the recommendations I am about to outline represent too much, too soon. To them, let me say that education plays a vital role in every aspect of our society.

It affects economic development. It has a profound impact on the quality of our life. It is the foundation on which we build and achieve

greatness. Education prepares our children for the future. It provides our citizens with the tools to make meaningful lives for themselves.

There also may be those who will say my proposals are too little...too late. To them, let me say the people of the State of Nebraska already are making a significant investment in education.

We must make certain that Nebraskans get the absolute maximum out of each dollar they invest in education. Taxpayers have a right to expect accountability for the investment we are making in our future, particularly for our children who are, after all, our most precious resource.

Improving our educational system is not a sprint...It is a marathon. Our additional investments must be made with the long view, and they must be carried forward into 1989 and beyond.

Today's kindergarteners will be the high school graduates of the year 2,000. The challenge we face is to see that they are prepared to compete successfully in the 21st Century.

I am, therefore, recommending the restoration of 10.7 million dollars for state aid to schools to prepare for opportunities in the future.

The needs for quality special education programs are compelling. Therefore, I am adding a total of 10.6 million dollars to provide for the deficit incurred in FY88 as well as provide a supplement for FY89.

We also just learned that the Nebraska Teacher Retirement System needs an infusion of 3.5 million dollars. We must stand by commitments made and consequently I am prepared to recommend this amount.

As I announced last summer, an additional appropriation of 4 million dollars to the University is specifically earmarked for research. In subsequent years it is intended that an additional 4 million dollars be provided each year for a five-year period.

This will result in total additional appropriations of 60 million dollars for University research and will increase the state-funded research base by 20 million dollars. The limited research capacity at the University of Nebraska has been forcefully...and repeatedly...brought to our attention. Basic research is a well-spring for innovation and economic growth and is a necessary component of the policies for economic progress to which we have committed ourselves.

Equally important to our educational goals is the retention and attraction of faculty and staff of the highest quality to our University and college systems.

Therefore, I am recommending to you today 10 million dollars for University and State College salaries. This amount is in addition to the 6.3 million dollars already appropriated for FY89. Together with

substantially enhanced research funding and internal reallocations, these recommendations, once adopted, will go a long way toward addressing the critical needs of our post-secondary education system.

This reconfirms our commitment and is in clear recognition of the need for creative talent to perform the teaching, research, and public service functions that the people of this state deserve.

I am also recommending a scholarship assistance program with an initial appropriation of 750,000 dollars. Funding of this program has been neglected for several years.

It is now time to move forward on commitments made in the past to ease the financial burden of obtaining a higher education.

As you are aware, I am recommending 1.7 million dollars for the Nebraska School of Technical Agriculture at Curtis. These funds will provide an important resource for transferring new knowledge and skills in technology from the University to the students at Curtis who are entering a rapidly changing agricultural environment.

Also, I am proposing the establishment of a scholarship fund at Curtis through the dedication of sales tax proceeds from the Farm Aid III ticket sales. It is hoped that additional scholarship funds will be forthcoming from alumni and businesses which benefit from the Curtis programs.

Just as we are working hard on the revitalization of our state's economy, we must begin the same type of effort on our educational system. These initiatives provide a springboard for excellence.

I am recommending the restoration of state aid to cities, counties, and natural resource districts in the amounts required by law. I am pleased to report that the collective bargaining process, established by LB 661, has resulted in a voluntary agreement with the NAPE/AFSCME bargaining unit representing approximately 6,500 employees...and a voluntary agreement with the NACE/AFSCME bargaining unit representing approximately 600 employees. These agreements provide for an across-the-board increase and a performance-based merit plan.

To address the needs of both union and non-union employees, collective bargaining was approached from the standpoint that results of any agreement be comparable and affordable...and that it recognize the many dedicated and hard working state employees. I am therefore recommending that those employees within the State Personnel System be afforded benefits in keeping with contracts recently signed. This administration will continue to work in the future to insure fair and equitable treatment of all state employees.

The Federal Government is requiring that states establish a revolving loan fund for waste water treatment construction. On my behalf LB 766 was introduced last year, and I urge you to enact this

bill into law. I am recommending 300,000 dollars as the initial cash flow requirement to fund this program.

I have asked Speaker Barrett to introduce legislation to create a Department of Natural Resources to house within one structure the responsibility for managing and planning the protection and preservation of our valued water and land resources.

Too often, the goals of sound planning and careful investment in our critical natural resources have been frustrated by lack of coordination among the many state organizations charged with the responsibility for providing leadership. The protection and preservation of our natural resources are far too important to be allowed to continue under the current organizational structure.

These initiatives plus funding for "A" bills amount to a 37.1 million dollar increase. We have received General Fund deficit and supplemental requests for an additional 33.3 million dollars. I am recommending funding of 23.4 million dollars of that request. Included are additional funds for special education, as mentioned earlier, and 4.3 million dollars for medicaid. These two entitlement programs require payment pursuant to a statutory formula.

In addition, there is included 538,000 dollars for asbestos removal at Wayne State College, a critically needed project. Included in the recommendation is 1.3 million dollars for the Attorney General to continue our efforts to protect Nebraskans' interests in the Deercreek lawsuit--although we are continuing to pursue negotiations in hope of an out-of-court settlement.

For the new Central Data Processing/Print Shop Building, as anticipated in the bond agreement, there is included 2.1 million dollars. I am recommending 800,000 dollars to the University for increased Health Insurance premiums. As you will recall, the University indicated in the budget submission last year that a rate of adjustment could be required during the second year of the biennium however, at that time the dollar amount of the adjustment was not known.

These adjustments, as well as a limited number of others in lesser amounts, are needed; and I recommend them for your consideration and approval.

Those actions plus 400,000 dollars for miscellaneous claims would require that the budget for the current fiscal year be increased by 10.6 million dollars and that the second year of the biennium be increased by 13.1 million dollars.

Actions already taken provide that any funds not spent during the first year are carried over into the second year and are available to be expended.

My recommendations including deficits, supplemental appropriations and new initiatives total 897.7 million dollars for FY 88 and 965.0 million dollars for FY 89, for a biennial appropriation of 1 Billion 863 Million dollars. This level of funding allows a reserve of 4.5 percent on a biennial basis.

Given the uncertainties that we face and the requirement that funding decisions made this year must be sustainable in the future, this level of reserve is prudent and responsible.

To commit to greater spending levels will not provide for the stability that we so urgently need and will almost certainly insure that future actions will be required to either increase taxes or cut budgets, neither of which is acceptable.

Therefore, I urge you to approach these off-year budget adjustments with caution and restraint. Responsible action dictates nothing less.

Ladies and Gentlemen--We are at a critical point in the history of our state. The cold weather of recent days reminds me of the story about a man alone in the wilderness who is building a fire to save his life. He has carefully prepared his kindling and just as it is ready to burst into flames snow falls from a branch above and extinguishes his efforts.

This story holds much for us today. The carefully prepared kindling has received the spark, and Nebraska's fire has started to glow. But the flame is fragile; and unless we proceed responsibly to tend that flame, it too could be extinguished.

We must gradually move ahead, avoiding the temptation to expect too much from our fire too soon. Dramatic spending increases, major policy reversals of the course set last session, new programs with large future commitments--will smother the flame.

On the other hand, if we progress prudently and steadily, and not expect too much too soon, we can continue to move Nebraska forward on the path we began last year...prepared to meet the challenges and opportunities which lie before us as we move boldly into the 21st century.

The committee escorted Governor Orr from the Chamber.

EASE

The Legislature was at ease from 10:30 a.m. until 10:36 a.m.

REPORT OF REGISTERED LOBBYISTS