

The motion prevailed.

The Chair appointed Messrs. Abboud, McFarland, L. Johnson, Beyer, and Ms. Schimek to serve on said committee.

The committee returned and escorted Governor Kay A. 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, distinguished guests, and my fellow Nebraskans:

I appreciated the opportunity to be with you last Wednesday and to greet you on your return for the 1989 session of the Legislature.

As I observed then, your presence produces a sense of excitement and energy that pervades this entire Capitol.

I am looking forward to a productive session, building on the considerable accomplishments we have recorded in each of the past two years; to renewing old friendships and to establishing new ones. So again, I'm pleased to say to each of you: "Welcome back."

It is my privilege today to report to you on the State of the State and present a budget for the operations of state government over the next biennium.

And in so doing we have to carefully examine the many roles of state government - and the most important role we have is to listen to the voices of all the people.

Father Val Peter, Executive Director of Boys Town in Omaha, perhaps captured this best when he said: "Any one can sit and look at the seashore and be inspired because it shouts at you. So do the mountains. But the prairie only whispers. You must listen closely and never miss the message."

At times in state government it would be easy for us to hear only the seashore and the mountains...the special interest groups and the power structures, but it is clear that we must listen also to the whispers of the prairie...to the young families, the grandparents, the small business owners, the wage earners, and our children because they all have a part in setting the course to keep Nebraska on the move.

The past months have been a time to listen to the concerns, hear the suggestions, and...yes...see the visions that come from the people who live on the prairie.

With the directors of many state agencies I have traveled far across our state--to the familiar gathering spots of rural Nebraska to the

think-tanks of urban industrialized areas--to the volunteer service clubs in the smallest of Nebraska communities--to the company presidents who serve on our chamber boards and development groups. We've had the opportunity to listen to the people from all walks of life in their home town settings--to hear the whispers of the prairie from a proud people, fiercely loyal Nebraskans who want the best for the future of their communities. These gatherings were an opportunity to exchange ideas and hear first-hand the wants and the needs of our fellow Nebraskans. It was necessary to listen closely so we wouldn't miss the message.

Through the mid-1980's there was a great deal of concern, and many questions were raised about our state's future. There were some who asked: "What's wrong with Nebraska?" There were special sessions to cut budgets, forcing programs to be eliminated, ideas put on hold, promises re-evaluated.

Today I am pleased to say the State of the State is measurably improved over a year ago and substantially stronger than it was when we began our work together in January of 1987.

We are able to talk about "What is right with Nebraska!" The "Can't Do" has been replaced by the "Can Do," and, again, the whispers are being heard from the prairie. We have prosperity as we end this decade and renewed hope for an even greater future in the 1990's.

The fact that we have made so much progress in so short a time is a tribute to the foresight and political courage of this Legislature. Your enactment of landmark legislation in the field of economic development and your commitment to quality education at all levels in Nebraska have mapped a new course for our state, a course whose milestones are more and better jobs for all our people, increased educational opportunities for our students, and a renewed sense of optimism and confidence throughout the state.

We can see and measure the success of our joint efforts in economic development: The commitment of well over \$2 billion in new capital investment and more than 18,000 new jobs.

We can see and measure the improvements in education: significant increases in state aid to local school districts; in additional appropriations for our university and state colleges to make possible faculty salary adjustments and to finance important research activities.

We can see and feel the new spirit that abounds in Nebraskaland. Wherever I travel across this state, whether it is part of our Capital for a Day Program, a state college commencement, or ground breaking for a new plant, there is evidence that our people are more

confident of the future, more secure in their belief in themselves, and more determined to work together to continue our progress.

By working together we have given Nebraskans new hope for the future. From Atkinson to Aurora, Beatrice to Broken Bow, Lexington to Lincoln, from Scottsbluff to South Sioux City communities are once again alive with activity created through legislation passed by this body. Let me share with you a few excerpts from letters received recently in my office.

Jackie Sharp of Nebraska City's Chamber of Commerce reports the most recent quarterly sales were the highest in three years. Sales tax receipts were 25 percent above expectations. Twenty new or expanded business activities started the past year.

Jackie wrote, "Nebraska City is definitely on the up swing. Our community has taken on such a positive attitude."

Leone Green in Albion reported five new or expanded business openings in recent months, with more planned. She said they held a Celebrate Nebraska event in June that will become an annual festival. She concluded by saying, "We're proud of Albion, and feel for a town of two thousand we're certainly holding our own."

Incidentally, Boone County's sales tax receipts are up 27 percent over last year.

Cathy Healey of Gothenburg writes about a youth community improvement program which has brought together 198 young volunteers who have been involved in civic and personal service projects that have recharged spirits and revitalized much of the town.

Keith Ellis in McCook writes "Exciting things are happening in McCook. Retail sales are up 18 percent. The people of McCook and Southwest Nebraska are controlling their own destiny. This is just the start of many success stories we know are going to happen."

Finally, an inspiring letter came from Liz Gerberding of Geneva. She started her letter by taking me back to July of 1986, when the local bank was closed. She said "When a bank in a small town closes, it's like someone dying.

Fortunately a new bank is open now, and what has taken place this past year is simply marvelous."

Liz took me on an imaginary walking tour of Geneva's business district, describing 30 improvements that have taken place. She closed by saying "People in the community are working together, young people are starting businesses...it's looking good."

Those accounts are both gratifying and encouraging. But it would be a mistake for us to suppose that our task is finished.

Improving our economy, strengthening our educational system, protecting our natural resources, bolstering Nebraska agriculture,

revitalizing our towns and villages--all these require constant attention and continuous energy and imagination.

Nebraskans have every reason to be proud of our schools and our teachers who do more than almost any other profession in building the future of the state. For years we've boasted of our graduation rates and outstanding student performances on college entrance examinations. It is imperative that we build on all the progress we have made in education.

Now we need to insure that our educational system is keeping pace with the almost bewildering progress in technology. We must continue to strive to make sure our graduates are trained to compete in a rapidly changing society. We cannot fail to recognize that the jobs of tomorrow are not the jobs of yesterday, or even of today.

Nor can we afford to relax our efforts to strengthen our economy. It would be easy to point to the spectacular success of our economic development incentive programs, dust off our hands and say, "Well, that's taken care of."

It's true that we enjoy one of the nation's lowest unemployment rates. But unemployment rates don't mean much to an unemployed or underemployed worker. We must not only continue the efforts to attract new business and industry to Nebraska and to assist companies already here; we must place renewed emphasis on those efforts.

And the competition is increasing. Neighboring states are aware of the success we have achieved with our performance-based incentives. We can expect renewed efforts by our sister states to get back into the race. We will not only have to work harder; we must work smarter in this fiercely competitive environment.

We must capitalize on our natural advantages like our central location and superior communications to build on our strengths.

And, as part of our overall development scheme, we must find ways to bring about a rural renaissance...a rebirth...to the smaller towns and villages of Nebraskaland.

While a number of communities have made progress in bringing a renewed vitality to main street, many localities have not fully shared in the recent economic upturn in Nebraska.

One difficulty appears to be that the technical expertise and resources for planning an effective economic development program are neither available nor affordable in some of our towns.

Nebraskans must assume responsibility for their own future--a future that belongs to those willing to invest the time, leadership, and resources needed to create a brighter tomorrow. It is in that spirit that I am proposing a comprehensive initiative to stimulate rural and community growth throughout Nebraska.

The proposal involves several agencies of state government working together to focus resources and expertise that will help our communities help themselves.

Civic leaders and small business owners have spoken clearly. They have asked for our help in job training; and they need hands-on assistance in securing financial packaging, federal procurement contracts, and export assistance.

That is why I am proposing the opening of four field offices of the Department of Economic Development in order to make the services of that department directly accessible to the communities.

The economy of our main streets depends heavily on the economy of our agricultural sector. A prosperous and expanding farm economy is of key importance in our efforts to revitalize our rural communities. For those reasons the agriculture component of the proposal is aimed at efforts to expand the markets for the products from our farms and ranches. In order to sustain our ability to produce we must be ever mindful of the need to preserve our natural resources; that is why I am proposing an increase in both the Resources Development Fund and Soil and Water Conservation Fund.

Education at every level has an important role to play in this proposal. Our renewed commitment to education in 1988 strengthened schools across this state. We will continue that commitment this year, including support for job training and financial management programs administered by the University, state, and technical community colleges.

Also, I am recommending additional funding for the Department of Education's "Distance Learning" program and increased appropriations for satellite interconnecting systems. This ensures quality educational resources will be available to every classroom in every corner of this state. Modern technology can and will have a dramatic and positive impact on our students.

The delivery of medical services in some parts of our state is in jeopardy. This problem deserves our urgent attention. I have asked Dr. Gregg Wright, the Director of the Department of Health, to convene a conference of health professionals, administrators, and lay people who will critically re-examine this issue and develop a list of options that the state may consider.

In addition to these initiatives rural renaissance will depend on the ability of communities to attract new capital. The private sector, as well as existing state programs such as the Research and Development Authority, can be a source of capital for new business ventures. I am optimistic we can make real progress in the months and years ahead. But it will require direction and leadership.

It is my intention to be actively involved. Over the next year, I expect to participate personally in a series of sessions with communities throughout Nebraska. The goal of these meetings will be twofold: The first is to work with local leadership in a realistic assessment of their community's strengths and weaknesses and develop a work plan for that community.

The second is to find ways to remove barriers to intergovernmental and inter-community cooperation and assistance. We must make certain that no resource goes unused.

Because these initiatives cut across so many departments and agencies, I am proposing that a new position be created in the Governor's Policy Research Office to coordinate the entire program. This will avoid duplication and overlap and insure the most efficient and effective use of state resources.

This rural emphasis has a high priority because it is imperative that we move promptly and aggressively to make certain our smaller communities share in the economic well being of Nebraska.

I have heard this message from the prairie. The state can...and must...do more to help create success stories on every main street of Nebraska.

These towns and villages represent what is best about Nebraska. They fully deserve our support and assistance. I have every confidence they will respond with enthusiasm and effectiveness.

Both in the context of a rural renaissance and economic development Nebraskans must give serious consideration to upgrading our highway system. The Department of Roads has responded to the Legislature's request for a comprehensive assessment of the state's highway needs over the next two decades.

In general, I found the results of the study to be reasonable and objective. They provide a sound basis for further discussion and consideration.

As with virtually every program of state government, the difficult decisions will revolve around the issue of how highway improvements are to be financed.

We must face the fact that Nebraska, more than most states, depends heavily on an effective and efficient highway system to sustain our economy and to continue our economic expansion. You are assured of my continuing cooperation as we develop solutions to our transportation problems.

Since its days as a territory Nebraska's primary industry has been agriculture. It will remain so into the future.

Our farmers and ranchers have faced many challenges during the past decade, the most recent, the unusually hot, dry summer in 1988. Fortunately, the drought did not severely affect the entire state. It

did remind us, however, that we must always be diligent in conserving our natural resource base. In that light, it is my hope that an even stronger partnership can be forged between state government and the natural resource districts as we seek to preserve our soil and water for generations to come.

New and expanded markets will likely continue to be the primary source of increased profits for agriculture. Therefore, I am requesting additional funding for our Department of Agriculture's Promotion and Development Division. Nebraska agriculture simply must be a major competitor in the world marketplace.

I must report to you on activities surrounding one of the more vexing issues facing state and local government, the continuing uncertainty surrounding local revenue due to the 4-R Act. My administration has been working diligently to find a remedy at the national level through the National Governor's Association and other organizations. Tax Commissioner John Boehm has testified before the Congress and continues to work with national organizations of state and local officials to bring about a solution.

Still, a solution to this problem is not imminent. My administration will continue to seek the cooperation of other states in working with Congress to find solutions which restore the states' control over their own tax systems.

This issue, together with recent Supreme Court decisions regarding ag land values, property tax relief, and state aid to education are all interrelated and inseparable issues that cannot be solved in piecemeal fashion. They must be addressed together, and meaningful solutions sought cooperatively. We must be mindful of the judgments of the Supreme Court in recent decisions and ones they may render in the future. We must be prepared to act forthrightly on recommendations presented by commissions we have jointly empowered. Even more important, we must listen to the whisper of the prairie...seek out and carefully weigh the wishes and desires of Nebraska citizens who have spoken on these issues in the past and who are certain to speak again in the future.

I am willing to work with you in fashioning a comprehensive solution to these complex issues.

Experience has taught me that working together, in a spirit of cooperation we can accomplish much. So today, I renew my pledge to listen with an open mind to your concerns, suggestions, and criticism.

As I present budget recommendations for the next two years, I want you to know how grateful I am for the cordial relationship we have enjoyed these past two years. I have great respect for each of you and the heavy responsibilities you bear.

Before I turn to specifics of the budget, let me say a word about the balance in the state treasury. There is a prudent balance at this time...as, indeed, there should be if we are to maintain fiscal stability. Each of us understands that current balances do not necessarily represent ongoing revenue and should not be used to undertake substantial new programs.

We cannot afford to fund new spending programs that cannot be sustained. Nebraska has been down that road before and has learned the tragic consequences of imprudent stewardship.

The budget I am proposing embodies two key concepts: stability and sustainability. It builds and expands on the commitments we made in the past two years to economic development and to education.

To insure that those commitments are met, I am proposing a budget of one billion, sixty-two million dollars for Fiscal Year 1989-90 and one billion, one hundred twenty-nine million for Fiscal 1990-91.

This represents an increase of 8.9 percent over the current year and of 6.3 percent the second year.

It is a budget that allows us to fulfill needs of our state that have been unmet for too long. It is a forward-looking budget, which is progressive yet prudent; responsive yet restrained.

It allows for a 3.54 percent biennial reserve of \$77.7 million, which is within the statutory reserve requirement and is within the revenue projections of the state forecasting board.

Further, as I announced recently, I will submit legislation for your approval to return to our taxpayers approximately \$18 million that resulted from changes in our tax laws in 1987. This money was not intended for use by state government and should be removed from any spending consideration.

In the last session of the Legislature we made truly remarkable progress toward improvement of our state's educational system. Today I am asking that we proceed with that task.

For the University of Nebraska I am recommending new appropriations of \$22.5 million for the first year and an additional 19.8 million for the second year of the biennium. This represents an 11.4 percent increase the first year and an additional 9 percent in the second.

Included in my proposal is funding for salary increases of 7.5 percent for each year. Four million and eight million dollars respectively have been added in each year for research initiatives.

A million and a half dollars is included for library automation. Automating and upgrading the UNL library is particularly critical for attracting and retaining quality faculty and graduate students.

These proposals are essential for long term efforts to sustain economic progress and improve quality of life in Nebraska. The recommendations of the Nebraska College of Technical Agriculture Review team are included to further develop quality programs at the Curtis campus.

Amounts requested to help solve staffing problems critical to the continued accreditation at the UNL College of Business Administration are included in my proposal, along with funds to upgrade the UNL student financial aid office.

For the State Colleges, I am recommending \$4.5 million the first year and an additional \$3 million in the second year of the biennium. This represents a 14.5 percent increase the first year and an additional 8.2 percent increase in the second. It also includes salary improvements of 7.5 percent per year.

Funds are included to increase library materials, instructional equipment, and other projects at Chadron, Kearney, Wayne, and Peru State Colleges.

I recommend that economic development or business assistance centers receive funding at the state colleges.

The State Colleges serve a vital role in providing expertise for business development in their respective areas, and these additional dollars will bring significant returns for the state's economy.

It is recommended that the Technical Community Colleges receive increased General Fund support of \$4.1 million in the first year and \$5.1 million in the second year of the biennium. This represents an increase of 17.9 percent in the first year and an additional 18.9 percent in the second year of the biennium.

This money is necessary to provide funding levels that will maintain core programs across the state. In addition, my budget recommendations include the dedication of \$300 thousand of revenue and interest earnings to the Technical Community Colleges from the Employment Securities Special Contingent Fund for employee assessment, training, and dislocated worker programs.

This will further aid economic development throughout the state. It is my recommendation the avionics program in the Western Community College area is to be given special consideration for some targeted funds.

Due to age, condition, and repair costs of the current microwave system it has become necessary to search for another means to provide statewide educational telecommunications services. The most cost effective solution is a satellite system. I am recommending funding to put such a system in place, thus continuing quality, statewide distribution of educational broadcasting. Capital construction costs will be \$1.1 million, with operating costs of \$1.2

million. It is important to note, however, that eliminating the microwave system, and its costs, could provide a payback on this investment in as few as four years.

Matching funds have been provided to the ETV Commission to allow Nebraska to participate in a federal grant demonstrating interactive instruction for secondary schools. Nebraska already is a leader in a pilot project. Matching funds will allow the state to utilize a satellite uplink to allow for distance learning in Nebraska schools and schools in 18 other states. I will give consideration to additional funding in this area only after a coordinated plan for Educational Telecommunications Services is completed.

Last year you'll recall, we increased state aid to education by approximately 9 percent. This budget continues that level for the biennium. At the same time we increase funding for Special Education by \$3.9 million in 1990, and \$9.5 million in 1991.

Availability of good books and other resource material enlightens and enriches our citizenry; so I'm recommending that funding for the Library Commission be increased in three areas.

These improved library programs will make quality information resources available to our citizens in rural and urban communities across Nebraska. These budget proposals continue Nebraska's strong commitment to education.

A \$1.3 million annual increase has been budgeted for the Natural Resources Development Fund, and \$500 thousand more for Soil and Water Conservation Funds.

I recommend that the increase in this area be earmarked for critical water quality programs, providing a concentrated effort to stop the effects of erosion and to remove harmful chemicals from our ground water supplies.

Last year this Legislature enacted a state revolving loan fund for constructing wastewater facilities. The federal government provides 80 percent of the cost, with the state responsible for the remaining share.

That cost is \$3.6 million for the biennium. A number of states are now using revenue bonds as an alternative source for obtaining their state matching funds. I would recommend that Nebraska adopt this funding concept, allowing this important environmental program to go forward.

A major increase has been provided for Medicaid services, administered by the Department of Social Services. Expansion of eligibility requirements by the federal government means more Nebraskans will receive assistance to cover the costs of nursing home and other medical care services.

Many older Nebraskans need and are entitled to our help and understanding. An additional 56.1 million dollars over the next two years will help to provide to those in need. Such care cannot be measured in financial terms alone. These commitments we gladly make to those Nebraskans who through over the years hard work and sacrifice built this great state.

Another need has to do with capital construction plans for our campuses. The focus is on basic utility repairs and improvements and related life safety code requirements.

To meet the needs at the University, my recommendation is \$5 million for the biennium.

If the University is to engage in quality research, the basic utility system requires maintenance and upgrading, simply to provide minimum necessary cooling and heating capacity along with electrical requirements.

At the State Colleges, similar funding totaling \$500 thousand is recommended. An additional 3.6 million is needed for the mechanical and electrical system repair project at Wayne State College.

Studies and recommendations by experts indicate this project must be completed as rapidly as possible.

I have also recommended \$383 thousand for planning money for the renovation of and addition to the College of Business Administration at UNL.

It is clear this project is long overdue and critical to the delivery of undergraduate and graduate programs to Nebraskans. I have, however, placed a total project cost limit of \$7.3 million from State funds on this project. If the Regents desire an expansion beyond that amount, the difference should come from non-state sources.

You are aware that we have reached voluntary agreements with our major employee unions regarding compensation and working conditions. Those contract requirements have been funded. For employees who are not members of bargaining units I am recommending salary improvements of 4 percent, beginning on July 1, 1989, and continuing next year; and based on performance further increases, ranging from 1.5 to 2.5 percent to be implemented on the employee's anniversary. A major focus of my budget recommendations relates to services for children and families.

We must work to improve the quality of care for children who cannot live in their own homes and who are the responsibility of the state, while continuing the emphasis on reuniting parents and children. Specifically, we are planning to significantly expand training programs and to strengthen support services for foster parents.

Recruitment efforts will be stepped-up to assure quality placements. I am also including \$3 million to develop community services for children in order to take advantage of the planning and development strategies that evolved in Nebraska's application for funding from the Casey Foundation. The focus will be at the community-level where children and families are appropriately served.

Further, I am submitting legislation as part of my tax cut proposal which would allow families with working parents to claim up to 25 percent of the federal income tax credit on their Nebraska tax return. Much time and effort have gone into the preparation of these proposals. Some difficult decisions had to be made---and were made.

This is a budget designed to keep Nebraska moving forward; to bring improvement to the quality of education in our state; to broaden the range of opportunities for all our citizens; and to brighten the future for our children and for our grandchildren.

These young people represent all our children and grandchildren...they are the reasons we must give them nothing but our best...the best education, the best career opportunities...the best environment in which to grow and mature.

So as you undertake the heavy responsibilities of this session, keep in mind the faces of these children and reflect on how your actions will affect not only their parents and grandparents...but the future of these boys and girls.

You have my every good wish for a most successful session, and my gratitude and that of your fellow Nebraskans for your willingness to serve us all. Thank you and may God Almighty bless each of 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 301.** Introduced by Speaker Barrett, 39th District, at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to appropriate funds for the payment of the salaries and benefits of certain state officers for the fiscal years ending June 30, 1990, and June 30, 1991; to define terms; and to declare an emergency.

**LEGISLATIVE BILL 302.** Introduced by Speaker Barrett, 39th District, at the request of the Governor.