

The motion prevailed.

The Chair appointed Messrs. Lamb, Morrissey, Wickersham, Mmes. Hillman, and Smith to serve on said committee.

The committee returned and escorted Governor Ben Nelson to the rostrum where he delivered the following State Budget Address.

STATE BUDGET MESSAGE

Madam President, Mr. Speaker, Members of the Legislature, distinguished guests, citizens of Nebraska:

When I delivered my Inaugural Address to you three weeks ago, the United States and its allies stood at the brink of war in the Persian Gulf. The battle was engaged one week later. As we begin the arduous task of constructing a budget for Nebraska state government, our thoughts and prayers go out to the men and women serving their country in combat, their families and friends, President Bush, Members of Congress, and the military leaders of the United States and its allies. We all pray that this conflict will come to a rapid and decisive conclusion.

I appear before you today to fulfill my duty as Governor of the State of Nebraska to present my budget recommendations for the next biennium. This budget has been developed through countless hours of discussion with budget and policy staff, and a thorough analysis of our state's needs and available resources. It reflects my assessment of the state of the state as presented to you in my Inaugural Address, and my priorities of economic development, environment, and education.

Let me briefly review the assumptions that provide the foundation for my budget recommendations:

First, the Persian Gulf war and recessionary trends across the country make it necessary for Nebraska to brace itself for the possibility of an economic downturn. General Fund receipts continue to fall below projections, indicating that a slowdown may have already begun. The budget for state government must therefore be

tightly constructed to prepare for the possibility of an even further erosion of revenues.

Second, decisions made in Washington will continue to have an impact on state governments across the country, both in terms of available funds and mandated spending. While actual outcomes may be difficult to predict, it is reasonable to assume that efforts will continue to reduce the federal deficit, exerting even more pressure on state budgets. In addition, the President indicated in his State of the Union message that he intends to seek further program shifts from the federal government to the states.

Third, prison overcrowding and entitlement programs such as Medicaid and Special Education are cutting substantially into our resource base. Long-term solutions must be found to reduce the growth in expenditures for these programs. I pledge to work with the members of this Legislature, our Congressional delegation, and where appropriate, other Governors, to develop these solutions as quickly as possible. In the meantime, we must be prepared to allocate significant state resources to these areas.

Fourth, policy choices made by this Legislature in recent years, such as LB 1059, have established financial commitments well into the future. These commitments, coupled with the requirements of entitlement programs, leave very little room for new spending within current tax rates. As a result, the budget I present to you today includes fund reallocations in order to meet high-priority obligations.

There are countless ideas and spending proposals in front of you worthy of state support. But we simply cannot fund them all. It is essential that we set priorities for state tax dollars and redirect a portion of existing resources toward those priorities.

The defeat of the 2 percent lid last November provides more flexibility than we would have otherwise had with its passage, but the fact that it was on the ballot sends a clear signal to those of us in government: Nebraskans are frustrated with government spending. The citizens of this state have recognized that the lid would have had a devastating impact on schools, senior centers, and other public services. But they also do not expect the message to be forgotten.

The budget I present to you today for the FY 1991-93 biennium has been developed with three basic criteria:

1. Stability of Tax Rates. Economic uncertainty and the public's attitude toward government spending demand that we fund the next biennial budget within current tax rates.

2. Affordability. We cannot simply ask if the budget is affordable this year. The long-range impact of our fiscal decisions on the state budget must be considered. If we plan ahead, we can avoid the financial distress we now see in other states.

3. Equity and Balance to the Needs for All Nebraskans. Allocation of state resources should not favor one area of the state over another.

For the next biennium, four major programs will require more revenue alone than the entire projected increase in revenues. State Aid to Education, Special Education, Medicaid and Public Assistance will cost the state an additional \$164.3 million through FY 1991-93, compared with expected revenue growth of \$131 million. Increased spending for these programs will exceed revenue growth by \$33.3 million.

If we are to meet these needs even partially, it will be necessary to redirect financial resources from other areas of the budget. Accordingly, I am recommending that all current programs of state government be reduced across the board by two percent, and that all state aid programs other than entitlements be reduced across the board by one percent. In addition, a number of specific reductions are being recommended for certain agencies and programs.

This action is necessary and achievable. Agency directors, governing boards, commissions, and University and college administrators will be called upon to prioritize, reallocate resources, reorganize delivery systems, and reduce administrative costs to more efficiently serve Nebraska citizens.

The across-the-board reductions will not affect the voluntary agreement reached with state employee bargaining units. The salary increase policy recommended for most agencies includes a three percent increase on July 1 for all employees with satisfactory service, along with another 1.5 percent increase on each employee's anniversary date. Employees with satisfactory performance, ten or more years of service, and whose compensation is at or below the midpoint of their pay range will be eligible for an additional one percent increase.

Health insurance is budgeted at an increase of 16.2 percent for FY 1991-92 and 16.9 percent for FY 1992-93. For agencies other than higher education, this increase will not allow continuation of the current first-dollar coverage plan. However, it does include stop-loss, co-insurance, and reduced-cost prescription arrangements, and the current level of premium payment by the state will continue.

The reallocations accomplished through the across-the-board reductions will help offset the cost of the bargaining agreement, entitlement programs, and other prior commitments. In addition, some of these resources are redirected toward my priorities: developing our economy, particularly in rural Nebraska; protecting our environment; and strengthening education.

Continuing the development of Nebraska's economy is one of three areas receiving particular emphasis in my budget recommendation and legislative package. The prospect of a recession and the need to stabilize our population base in most Nebraska counties requires continued attention to economic development. I have stated my view that state government should be a player, although not the dominant player, in economic development activities. My budget and legislative proposals follow through on that principle.

The best economic decisions are those made at the community level. With the assistance of Senator Paul Hartnett and the Legislature, I will seek adoption of enabling legislation to implement the provisions of Amendment 3, adopted by Nebraska voters last November. The option of directing local tax revenues toward economic development adds another tool for communities to develop local and regional economic activity.

The Rural Development Commission, led by Lieutenant Governor Maxine Moul, will assess the vast array of development activities underway and make recommendations concerning the most appropriate role for state government to play in supporting Nebraska's small communities and rural areas. To support the Commission's work, I have included a recommendation for \$250,000 in General Funds for the coming biennium.

The substantial impact of federal decisions on Nebraska's economy leads me to recommend the establishment of a Washington, D.C. office to ensure that our Washington delegation receives timely and adequate information on the impact of proposed federal decisions. Thirty-seven states currently have an office in Washington. Establishing such a link will enhance the ability of Nebraska state government to support our Congressional representatives in carrying out the increasingly difficult task of protecting a small rural state's interests in the highly-competitive national arena.

The Washington office will also be used to help Nebraska citizens access programs such as trade export assistance from the Department of Commerce, and to assist Nebraska businesses and individuals work through the maze of regulatory snags that stem from federal agency decisions.

Accordingly, my recommendation includes \$250,000 in the Governor's budget to establish the Washington office. Given the impact of pending changes in federal highway funding alone, this investment may pay for itself in its first year.

I have also recommended that the budgets of the Governor's Office and the Policy Research/Energy Office be consolidated. I consider the staff in the Policy Research Office to be a vital part of

the Governor's Office, and this recommendation recognizes and emphasizes that close working relationship.

In the near term, I intend to continue the consolidation of the Policy Research Office and the Nebraska Energy Office that took place four years ago. With the great uncertainty in the Middle East, the Governor needs immediate access to information and policy options in the energy area. Once the situation in the Persian Gulf is resolved, I will review the consolidation and determine whether the best interests of Nebraska citizens will be served by maintaining this relationship, or by re-establishing NEO as a separate agency.

The budget includes increases in staffing for the Governor's Office. I have thoroughly reviewed the level of resources available, and the expectations I have for my staff. Based on this analysis, I have determined that additional dollars will be required. My recommendations for staffing and other budget items I consider necessary for the efficient operation of state government will be above-board, in the open. I firmly believe that sound management for state government starts in the Governor's Office, and I ask for your assistance in giving me the tools necessary to get the job done.

I am recommending \$60,000 in General Funds for support of the Office on Children and Family Policy in each year of the biennium, and the same amount for support of the Office of Urban Economic Development that I have recently created. I am also requesting funds to upgrade the computer system for the Governor's Office to bring our capacity closer to that of the Legislature; \$30,000 to continue operation of the Governor's Office in Western Nebraska; and \$30,000 to re-establish Nebraska's relationship with the Western Governors' Association.

Nebraska's interests have much in common with the states of the WGA. In particular, we share concerns about waste and water issues, as well as concerns about the overall impact of federal decisions on the rural West. Aligning ourselves with the other western states adds a valuable tool in our quest to solve the economic and environmental problems confronting us.

My budget recommendation also includes \$16.9 million for Fiscal Year 1991-92 to fulfill the commitment to repay depositors in three failed financial institutions. The expenditure of these funds awaits a decision by the Nebraska Supreme Court. I do, however, wish to signal my intent to honor this commitment should it be upheld by the Court.

Environment

The second area of policy emphasis is protecting our environment and natural resources. Senator Chris Beutler and Senator Rod

Johnson are taking the lead on my initiatives in the areas of low-level and solid waste, and will be working with others to fashion a comprehensive approach to these issues. These include Senator Spencer Morrissey, who has provided invaluable assistance in fashioning an agreement for completion of the Comprehensive State Solid Waste Management Plan; and Senator Cap Dierks and Senator Stan Schellpeper who both have a great interest in the low-level waste issue.

I have met with Boyd County representatives on both sides of the low-level issue. I have assured them that I will work tirelessly with this Legislature to see that work does not proceed on the low-level site until we have explored all available options. My initiatives will seek to ensure that all compact states share in any liability that may be associated with the site, and that deliberations of the Central States Compact Commission are held in open meetings, all records of the Commission are open to the public, and the host state is granted additional voting and non-voting Commission members.

We will cooperate fully with SCS Engineering to see that a comprehensive plan for solid waste disposal in Nebraska is developed during 1991. A more immediate concern is the importation of waste from outside the state, underscored by recent news that additional waste from New York is headed for a landfill near David City. With the help of Senator Rod Johnson, I will seek to restrict the movement of solid waste into Nebraska from other areas of the country.

Recent actions in other states point out the difficulty of accomplishing this goal in view of Interstate Commerce Clause considerations. Nevertheless, it is critical that Nebraska and other states continue to pursue solutions that are environmentally and constitutionally sound.

Two years ago, the Legislature authorized the Department of Environmental Control to provide grants to villages of 800 people or less for construction of waste water treatment facilities. By statute, the Department can obligate no more than \$300,000 of state funds per year to towns experiencing serious financial difficulty.

The budget recommendation provides General Fund support at the maximum amount, \$300,000 for each year of the biennium. This program, in combination with other state and federal funding assistance, promises to play a crucial role in allowing the state's smallest and most financially stressed towns to meet waste water standards without imposing an impossible financial burden on their citizens.

One foundation of any rural development effort is ensuring a sound infrastructure, a basic need for economic growth. This

program is an excellent example of investing state resources toward that end.

Federal law governing clean-up activities at Superfund sites requires a non-federal match of 10 percent of implementation costs for the first year, and responsibility for operating costs in subsequent years. The federal Environmental Protection Agency expects to begin remediation at the Well Number 3 Superfund site in Hastings within the next year.

Pursuant to a contract between the state and federal governments, the state's cost will be approximately \$100,000 annually beginning in FY 1992-93, and lasting over several years. The budget recommendation includes \$102,880 in General Funds for this purpose.

Since its inception the Department of Environmental Control has relied heavily on federal grants to pay the operating costs of its basic programs. This has resulted in a situation in which some important functions are inadequately funded as the federal government shifts priorities. One example is the state's solid waste program, which was cut back drastically some years ago as EPA shifted focus to hazardous waste management.

Over-reliance on federal funds also limits the Department's ability to develop and respond to Nebraska's environmental priorities. To address these concerns, the budget recommendation provides a General Fund increase of fourteen percent for basic operations through the biennium. This will allow the Department to move more effectively in many areas, including Special Protection Areas, solid waste management, and water quality.

Education

Last year, the Legislature adopted, and the voters approved, the most significant changes to the State Aid to Education formula since its inception. LB 1059 included a wide range of changes, including a limit on school budgets and increases in state tax rates to provide more state funding in an effort to reduce property taxes. The state aid formula will now be based on actual cost data and will recognize differences in school size.

The enrollment option, or "choice," program and supplementary funding for teacher salaries have also had a substantial impact on state funding for education. Unanticipated numbers of student transfers have increased expectations for General Fund support, since the state is now responsible for funding the cost of these transfers on the basis of actual, per-student costs.

My recommendation for State Aid to Education, the Enrollment Option Programs, and the salary package for teachers is based on the

increased revenue from LB 1059. I support the continuation of the Help Education Lead to Prosperity Act at its current funding level, and I have included an additional \$1 million so that salary limitations included in the original program can be eliminated as proposed by Senator Lynch in LB 91.

Funding for each of these programs, however, is intended to apply toward the goal of 45 percent state funding for education in Nebraska.

The Legislature, through LB 960 passed last year, has endorsed the idea that Nebraska schools should restructure the delivery of educational services. My proposal for a State Lottery is designed to put financial resources behind school restructuring, technology enhancements, and other approaches to improving the quality of elementary and secondary education.

These funds will be directed toward pilot projects in school restructuring, including the implementation of research in improving the classroom environment, technology enhancements, and devising better methods of meeting the needs of at-risk students. I will involve teachers in decisions about the allocation of these funds, since these professionals are most closely involved with Nebraska's children and youth in the classroom. I will also ask Nebraska's business community for their input, recognizing the importance of their voice in defining the needs of a 21st century labor force.

Senator Jacklyn Smith is taking a leadership role in formulating an amendment to the Nebraska Constitution to establish a state lottery. Senator Baack, along with Senator Withem and Senator Will, have introduced enabling legislation on my behalf. Estimates indicate that we can expect in the neighborhood of \$20 million annually in proceeds from this lottery proposal.

I am also recommending a \$75,000 General Fund match for the Nebraska Mathematics Coalition. This public/private partnership is one of 26 such organizations in the country, dedicated to revitalizing mathematics education at all levels, kindergarten through college. The proposed state match will strengthen Nebraska's case for a \$4.5 million, five-year grant from the National Science Foundation which would allow development of a comprehensive distance learning program and interactive videodisc technology for mathematics instruction.

Also included are matching funds as part of the NEB*SAT initiative, which will allow 48 additional elementary/secondary schools across the state to become active participants in the Star Schools and NEB*SAT networks. This access opens the door for students and educators in non-urban areas to advanced-level

secondary and continuing education courses, along with an expanding array of other educational resources.

The budget recommendation for Postsecondary Education provides an increase of 2.1 percent for the first year of the biennium and 8 percent for the second year. While this amounts to \$33.1 million of additional state General Funds for the University of Nebraska, State Colleges, Technical Community Colleges, and the Postsecondary Coordinating Commission, it will in reality require a significant reassessment of priorities and programs. I am confident that through the coordination that will be achieved both voluntarily and through the new commission approved by the voters last November, our institutions of higher education can meet the challenges of the 90's and beyond.

Over \$2.2 million of operations funding is provided for NEB*SAT and the Rural Health Education Network (RHEN) initiative. The NEB*SAT allocation also includes additional funding for the cooperative, two-tiered MBA program at Scottsbluff. The Rural Health Education Network (RHEN) initiative is designed to improve access to education programs for health professions by using the NEB*SAT system to deliver courses via satellite to selected locations. Initial sites for the RHEN program will be North Platte, Kearney, and the Grand Island/Hastings area. The goal of RHEN is to provide increased interdisciplinary education to teams of Nebraskans who are potential health professionals, and who currently reside outside Nebraska's urban centers.

The University of Nebraska at Kearney will operate as one hub institution, along with the University of Nebraska Medical Center in Omaha. Local community involvement and support, along with reallocated resources at UNMC and non-state funds will enhance financing of the project.

At this time, University Research Initiative funding is being maintained at its current level. Proposals for expanding the initiative will be examined next year, and will be contingent upon available revenues, experience and outputs, and the success of the University in meeting its commitment to provide more and better laboratory research space from non-state funds to effectively utilize any additional state research funds.

An additional \$436,700 for FY 1991-92 and \$438,580 for FY 1992-93 is provided to the Nebraska Educational Telecommunications Commission, along with \$111,235 in deficit funding for the current year. These funds will enable the Commission to negotiate for purchase of space on the Spacenet III satellite, to provide uninterrupted satellite access for the state through the end

of the decade. This will maintain the high-quality educational television Nebraskans currently enjoy.

Funding is recommended for the Nebraska Public Radio Network to provide in-depth coverage of statewide issues affecting Nebraska citizens through development of a monthly live "Town Meeting of the Air" series. Using NEB*SAT up-links in strategic locations throughout the state, the Network will select one pertinent issue each month, convene a panel of experts, and invite a live studio audience at a different location each month to discuss the topic. Listeners throughout Nebraska will have the opportunity to call in during this two-hour broadcast. This is a low-cost way to inform and involve citizens in the policy-making process.

With plans for the organization of the new Coordinating Commission for Postsecondary Education pending before the Legislature, continuation funding for the current Commission is recommended. \$1 million is allocated to the Commission for FY 1992-93 which, with the approval of the Commission, may be transferred to the University Board of Regents or the State College Board of Trustees for distribution to any four-year campus, or to governing boards of the Technical Community College areas. Distribution of the funds will be based on the Commission's selection of areas most in need of additional General Fund support for improved instruction.

Capital Construction

Perhaps the most visible issue in the area of capital construction this year will be the distribution of the proceeds from the cigarette tax that will become available with the completion of bond repayment for completed projects. As you know, several groups have already lined up to stake their claim to these dollars.

In my view, we must proceed with caution in making commitments for these funds, particularly in view of the possible need for more prison space in the coming years. This Legislature has already approved funding for more correctional facilities, but projections indicate that Nebraska's prisons will operate at roughly 150% of capacity even with the additional space. I am recommending that the commitment of these cigarette tax dollars be reserved until we have a more complete picture of prison space requirements. Toward that end, I am recommending a \$75,000 appropriation to the Department of Corrections for development of a Master Plan.

Nebraska is among the top ten states in the country with respect to prison overcrowding, and several states are under court order to deal with the problem. The next-to-last thing I want to do is build more prisons; the last thing I want is to be forced into more prison

construction by the courts. I ask you, the members of the Legislature, to assist in the development of legislation that will help us reduce the growth in prison population. Like you, I would prefer any number of other uses for our state funds. But unless we find workable alternatives, investments in education, research, or other areas will be precluded by the need to build more prisons. I commend the initiative you have already taken in this area. We must continue this task together.

My recommendation for capital construction includes funding for the reaffirmation and continuation of all projects currently in progress, totalling \$19.4 million in General Funds and \$14.2 million in cigarette tax funds for the biennium. These projects include the College of Business Administration project at UNL; the Fine Arts Facility at UNO; the Library Automation project at the University and State Colleges; the Electrical Distribution System at UNK; the Eppley Science Hall addition at UNMC; and the two housing facilities and the Minimum Security Facility at the Department of Corrections.

In addition, the long-term payment contracts entered into by the Board of Regents and the Board of Trustees under LB 410, LB 842, and LB 218 are reaffirmed and funded, along with the Law Enforcement Training Center contract.

Funding for new construction includes over \$9.8 million for the biennium, including over \$2.5 million for the University and State Colleges for fire and life safety improvements; over \$2.1 million for the Nebraska Educational Telecommunications Commission for the satellite transponder lease purchase agreement, \$4 million for deferred repairs, and a variety of smaller fire and life safety project in several agencies.

Conclusion

This budget reflects an assessment of decisions that cannot be changed immediately, of economic conditions that are in flux. It is not enough to simply regret these conditions; what is required is that we accept the challenge to redirect our course. The world we live in will not permit business as usual.

Implementing this budget will require the best managerial skills of agency directors, education administrators, and others in management positions. They will have my full support in making the difficult decisions that lie ahead. We must ask new questions. Imagine new approaches. Seek new partners. Develop new relationships.

The businesses and industries of Nebraska live, grow and prosper in an environment such as the one we in the public sector now face.

We must be committed to demonstrating that Nebraska's government can meet that same challenge.

I ask for the help of every elected official, every government employee, and every Nebraska citizen in achieving what is, without question, a difficult task. We have the capability to meet this challenge; our efforts and desire will ensure our success. We can do what must be done.

I want to close by thanking the members of this Legislature for your help. Senator Baack, you and your colleagues have already shown the will and the skill to work together with me in achieving our common goals. As we send this budget to Senator Moore and the Appropriations Committee, I ask for your best efforts to make the sacrifices proposed in this budget in fairness, with compassion, and for the common good.

If we respond to the challenges before us, what we have accomplished will be enhanced, what we have built will be strengthened, and what we want for our future will be achieved.

Thank you very much.

The committee escorted Governor Nelson from the Chamber.

UNANIMOUS CONSENT - Members Excused

Messrs. Haberman, Dierks, and Withem asked unanimous consent to be excused until they return. No objections. So ordered.

EASE

The Legislature was at ease from 10:45 a.m. until 11:05 a.m.

BILLS ON FIRST READING

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

LEGISLATIVE BILL 841. Introduced by Speaker Baack, 47, at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to appropriate funds for the payment of salaries of members of the Nebraska Legislature and payments to be made as provided by Chapter 68, article 6, for the fiscal years ending June 30, 1992, and June 30, 1993; and to declare an emergency.