

Mr. Warner asked unanimous consent to have his name added as cointroducer to LR 6. No objections. So ordered.

UNANIMOUS CONSENT - Withdraw Cointroducer

Mrs. Witek asked unanimous consent to have her name withdrawn as cointroducer to LR 8CA. No objections. So ordered.

PRESIDENT SIGNED

While the Legislature was in session and capable of transacting business, the President signed the following resolutions: LR 5 and LR 6.

PRAYER

The prayer was offered by Bishop Fabian Bruskewitz, Lincoln Catholic Diocese.

MOTION - Escort Governor

Mr. Baack moved that a committee of five be appointed to escort the Governor of the State of Nebraska to the Legislative Chamber to deliver his State of the State and Budget Address.

The motion prevailed.

The Chair appointed Ms. Day, Mrs. McKenzie, Messrs. Avery, Jones, and Hohenstein to serve on said Committee.

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

STATE OF THE STATE/BUDGET ADDRESS

1992 marked the one-hundred-twenty-fifth year of statehood for Nebraska -- our Quasiquicentennial.

It has been a time of celebration.

A time to remember and honor those who came before;

A time to recognize and celebrate our diverse cultural heritage;

A time to express pride and renew appreciation for our land, our people -- the strength that is Nebraska.

Just as those who occupied this corner of the world for centuries before us, we are obliged to continue on the path, building the framework of the future for our children and grandchildren.

We will continue our quest for excellence in 1993, and we start from a solid foundation.

****Nebraska's economy remains sound, weathering well the storm of national recession. We boast one of the lowest unemployment rates in the nation.**

****For the first time in nearly a decade, more people are moving into Nebraska than are moving out.**

****Through the cooperation and hard work of my administration and the Legislature, we have restored stability to the property tax system, and we have laid the groundwork for reasoned discussion of the next budget.**

As we approach the turn of the millennium, the decisions we face are framed in a new context.

We are entering a challenging era in history.

****One in which change is rapid and constant;**

****One which presents a myriad of problems, and opportunities;**

****One in which a new style of leadership will be required.**

With change comes discomfort. We long to preserve the familiar, and we are right to hold onto that which endures.

But some change is inevitable. The key is to know the difference between that which is transient, and that which is timeless...

Leadership in the 1990's and beyond involves the capacity to understand, to respond, and even to shape change. To do so, a leader must act in partnership, not in isolation.

The greatest form of leadership is empowering others to become leaders themselves -- to invite others to stand shoulder-to-shoulder, not to demand that they fall in line behind.

Leadership involves creating an environment that inspires people to make things happen. And things are happening in Nebraska.

Our accomplishments have been achieved together, as One Nebraska. Together, we have made real progress in spite of tough budget times. Together, we have delivered.

Focusing on the "Three E's" -- Economic Development, Environment, and Education -- we are seizing control of Nebraska's destiny.

Together, we are making real progress on our economic agenda.

****Our development policy is supporting businesses, communities, and their leaders in the pursuit of sustained economic growth.**

****Trade missions to the Middle East and the Pacific Rim are paying dividends for agriculture and other Nebraska businesses.**

****The Governor's Rural Development Commission -- and the Office of Urban Affairs -- are both focusing their efforts on community-based success.**

**** Whether in Omaha or Cambridge, Scottsbluff or Falls City: success is community-based, and enterprise-focused. State government is the junior partner -- but we can be, and we will be, an active partner.**

Together, we are making real progress on our environmental agenda.

****We have handed Nebraskans a new tool for lasting contributions to our quality of life through the Environmental Trust Fund.**

****The Solid Waste Management Act passed last year has led 91 of our 93 counties, and nearly 90 percent of our communities, to outline environmentally-sound waste management plans that meet both local and regional needs.**

****An invigorated state recycling program has placed Nebraska second in the nation in the use of recycled paper -- and we're pushing hard to be first.**

****Together, we have developed an action plan for energy conservation, implementing ideas from converting state vehicles to alternate fuels, to enhancing the Dollar and Energy Saving Loan Program.**

****Together, after a decade with no solution, we have delivered to the Feds a Nebraska solution for the relicensing of Kingsley Dam.**

****We are moving ahead with the lawsuit against Wyoming on flows in the North Platte River. Our case is strong; it is being presented in front of the United States Supreme Court this morning. Water wars with neighboring states are unpleasant, but we will protect our water.**

****Together, we have delivered to Boyd County voters a voice in their own destiny. Community consent does not exist, and the Attorney General will file a lawsuit today in Federal District Court to force removal of Boyd County from consideration as the dump site.**

In the meantime, I am asking the Legislature to strike language that requires the state to take title to any waste stored in the low-level dump -- if and when it is built. This action is based upon a U.S.

Supreme Court ruling in a New York case, and it will help protect the state from liability. Safety will continue to be our top priority.

Together, we are making real progress on our education agenda.

****The Education Innovation Fund opens a host of opportunities for new ideas in education.**

****Fourteen communities are now part of our Nebraska 2000 initiative, and dozens more are developing improvement plans for High Performance Learning.**

****My experience as Chair of the National Education Goals Panel has shown me that we still have work to do. But I have also learned that Nebraskans are responding through their commitment to broad-based, grass-roots school transformation. Business leaders, parents, administrators, teachers and students are all involved in our drive to reach world-class standards.**

****Pilot projects throughout Nebraska are linking schools together with interactive video.**

****The Rural Health Education Network is expanding access to continuing education programs for health professionals across the state.**

****Higher education continues to be one of Nebraska's primary assets. I am pleased with our progress in bringing business and higher education together to fashion a research agenda. Our goal is a program that combines academic freedom with responsiveness to the needs of industry.**

****The Coordinating Commission for Postsecondary Education is making its presence felt. Over the long term, the Commission must have a positive impact on higher education in Nebraska.**

We are doing things right. Our agenda has been packed, and much more could be said about Nebraska's accomplishments in areas like children and families or the role volunteers play in stretching the value of our resources.

Our agenda has been ambitious. And together, we are making progress.

But our agenda is not finished. There is work yet to be done.

****Tough choices must be made in order to maintain the stability we have worked so hard to establish. We have to finish the job we began last fall. The budget I am presenting today is spartan -- it is a hold-the-line budget -- it is austere. We must balance the budget.**

****Keeping state spending in line helps to stabilize our economy -- promoting investment and creating jobs. We take pride in our low unemployment rate. But we must continue to work toward the creation of more high-skilled, high-paying jobs where working means earning a living.**

The Applied Information Management initiative is a creative approach toward this objective. We will continue to work closely with the AIM Institute to match the skill requirements of Nebraska business with appropriate education and training programs.

****Enterprise Zone legislation is needed to provide incentives for job creation in economically-distressed areas throughout Nebraska. Our goal is to improve -- significantly -- the neighborhoods and the standard of living for the residents of enterprise zones.**

****The turnaround in net migration is encouraging. But population continues to decline in rural Nebraska. We need to maintain and build on the momentum created by our Rural Development Commission -- and the projects it has initiated -- by giving it a permanent home in the Department of Economic Development.**

The Commission has been recognized under the President's Initiative on Rural America Act, and federal funds have been secured. Their resourcefulness means that no new state dollars will be required to continue Commission activities.

****Transportation is essential for Nebraska's economy, and for our people. Our highway system is rapidly improving, with a record \$282 million construction program last year.**

Mass transit systems are a critical piece of Nebraska's transportation infrastructure. Transit systems exist in almost every area of the state, but they are not connected with each other, or with interstate transportation.

Accordingly, I have proposed the creation of the Intercity Bus System that connects existing local systems into a statewide network. Our goal is an urban/rural link that improves access for all Nebraskans to regional health care services, interstate transportation, and other essential services.

****Nebraska's contribution to fueling America's transportation needs is growing rapidly. Ethanol is on the move. In addition to new construction underway during 1992, we welcomed Cargill's announcement that it would build a large corn processing plant near Blair.**

This facility has the potential to process hundreds of thousands of bushels of corn daily by the end of the decade. Ethanol holds promise both for the environment, and for Nebraska agriculture through the creation of new markets.

**** Production agriculture is fundamental to Nebraska. With that in mind, I intend to support four specific initiatives that will benefit Nebraska agriculture.**

First, Nebraska should take on the management of the federal pesticide program known as FIFRA. State government is in the best position to administer this program, and to do so in a way that protects both the needs of agriculture and the environment.

Second, I will continue to promote Nebraska agriculture aggressively, both at home and abroad. The Department of Agriculture is making internal reallocations to direct additional resources toward ag promotion activities.

Third, I am supporting legislation to streamline the process for obtaining overweight farm truck permits. Timing is everything in getting crops out of the field and hauled to market. I want to minimize the time required to apply for and receive an overweight permit. This should be a user-friendly program.

Fourth, Nebraska agriculture must have a voice in allocating resources from the Environmental Trust Fund. The lottery bill adds the Director of Agriculture to the Environmental Trust Board, along with three additional members of the general public to maintain balance. The legislation also makes it clear that any land acquisitions made with Trust funds are strictly on a willing buyer/willing seller basis.

**With these changes to the Environmental Trust Fund, and some minor changes to the Education Innovation Fund and program administration, lottery legislation should be re-enacted in the same form as the original bill.

** The Education Innovation Fund is an important in directing resources toward new ideas in education. But it is not intended -- nor can it be -- an ongoing source of programmatic funding. The most important step toward enhanced state funding for basic education has been taken through LB 1059.

The 1059 state aid formula has unquestionably moved Nebraska toward greater equity in educational opportunity. Adjustments may be warranted, and I will carefully review proposals to do so.

**Teacher salary enhancements should be made part of the state aid package. I have a high regard for Nebraska's teachers, and they deserve to see the state's contribution to salaries continued.

State aid to education will increase by \$44.2 million over the next biennium. There is ample room to include the salary enhancement package for teachers as part of that increase.

Our income tax system needs to be fixed. I am proposing tax cut for 400,000 Nebraska families -- about 80% of our taxpayers. Middle-income Nebraskans deserve this change. I urge the Legislature's support for LB 240.

Another tax equity question is posed by Nebraska's current business incentive program. The Employment Investment and Growth Act has had a positive impact on Nebraska's economy. There is, however, an element of this program that continues to leave a sour taste in the mouths of many Nebraskans -- the corporate jet exemption. I remain convinced that this element of our tax incentive package must be changed.

I have proposed legislation that empowers communities to implement this exemption at their choice. Other communities will not be saddled with this approach by a statewide mandate.

Adjustments in tax policy are important to the bottom line for Nebraska's families and businesses. But there is another issue which -- if not properly addressed in the next few years -- will more than offset the benefits of tax changes.

Health care continues to be a major concern across the country. Costs are escalating beyond the rate of inflation; access to services is difficult for many, both for geographic and financial reasons; the business community -- as well as government -- sees a growing drain on resources caused by health insurance and workers' compensation costs.

Last year, I formed a Blue Ribbon Coalition and an Interagency Task Force to assess health care options for Nebraska. I have just received preliminary reports from both groups, and we have a strong beginning from which to build. I have asked these two groups to work together through 1993, analyzing these proposals in detail, while keeping a sharp eye on national developments.

One bright spot in Nebraska health care is the Rural Health Opportunities Program, a cooperative venture between the University of Nebraska Medical Center, Chadron and Wayne State Colleges. Twenty-six students currently enrolled at the state colleges -- and who are committed to remaining in rural Nebraska to practice -- will begin their health professional training at UNMC this year.

They -- and those who follow them -- will receive financial assistance through the creation of a new loan program. State dollars will be matched by UNMC, and rural communities will be asked to pay back the loans in return for practice commitments from these students.

For state government, Medicaid is clearly at the top of the health care agenda. Medicaid costs grew by more than 48% over the past two years. They will account for over \$72 million of all new expenditures in the coming biennium.

With the help of the Legislature, we have taken steps to begin controlling the cost of public assistance. While tax dollars to some programs have been curtailed, in many cases the services are now being provided by volunteers -- in the true Nebraska spirit.

The Department of Social Services is moving aggressively to streamline administration, and to implement a managed care program. This will also help control costs.

These steps alone are not sufficient to plug the gap. Like many other states, we need to look seriously at other sources of funding for Medicaid.

We are working with the health care industry on several alternatives, including a provider fee. This is not the option I prefer, and I am hopeful that an alternate solution can be achieved. However, my budget assumes that action will be taken in this area.

Another high-cost aspect of the state budget -- one with the potential to skyrocket -- is our prison system. We are currently operating at over 153% of capacity.

Make no mistake -- convicted criminals who pose any substantial risk should not be released prior to completing their terms. Prisons are needed to protect the public. They are also costly to build and operate. There are opportunities to reduce the cost of criminal justice while protecting the public, and I intend to explore those options.

Our law enforcement community is doing outstanding work. The Nebraska State Patrol has increased DWI arrests to an all-time high. Drug seizures by the Patrol are up markedly, and overall drug arrests are up 66%.

A large percentage of our prison population suffers from substance abuse problems. Therefore, I am recommending nearly \$3.8 million over the next biennium to maintain operation of the Lincoln Air Park facility for treatment programs.

Nebraskans are reasonable people. We understand that public services cost money, which requires the collection of taxes. In return, we expect to be taxed fairly, and we expect our tax dollars to be spent wisely.

It is politically popular to call for cuts in spending, elimination of waste, and improved efficiency in government. Talking about it is one thing. Making it happen is quite another -- and we are making real progress.

Step one has been to put the brakes on state spending. My recommended budget for fiscal year 1994 is \$4.3 million less than the 1993 budget. But Washington's heavy foot is still on the gas pedal.

Almost 90% of increases in the next budget will be due to mandates and entitlement programs. Medicaid is but one example; the list is much longer: public assistance, special education, homestead exemptions, school choice transportation, wards of the court -- funding for these programs is currently a matter of entitlement, not a matter of choice for policy makers. It's a blank check.

The margin upon which we can have an impact on the budget -- discretionary spending -- is steadily becoming smaller. We have less and less to invest in new initiatives because these worthwhile -- but expensive -- programs grow larger. This trend will continue unless entitlements and federal mandates are restrained.

We have an opportunity to work with the new administration in Washington to address federal mandates. As a former Governor, President-Elect Clinton is all-too-familiar with the impact of mandates on the states.

Changes of this magnitude will take time, and they will be difficult.

State entitlements -- such as Special Education -- should also be carefully examined. Again, change will be difficult and time-consuming.

The Legislature took a strong step toward stability last year by cutting \$97 million from the budget. Their action was essential in framing the budget discussion for the 1993 session. But there is more to be done.

We have limited options to balance the budget while maintaining necessary services.

** We can choose to make deeper cuts in discretionary spending, and I have made selected recommendations to do so.

** We can choose to improve the efficiency of government operations, and there are several initiatives underway.

** We can choose to increase any number of user fees -- costs for services paid directly by those who use them. After careful consideration, I have made selected recommendations in this area as well.

** And, yes, we can choose to raise sales and income tax rates. But this is an option I have rejected in my budget, and I urge you to reject it as well.

State and local governments are being required to do more with less. Improvements in productivity are essential. New ways of doing business are necessary. A new paradigm of government is in order.

Government should be guided by sound business principles: driven by a clear mission; oriented toward, and accountable for, results; viewing expenditures as investments upon which a return is expected; guided by an understanding of markets; getting employees involved in decisions.

This new era is beginning to take shape in Nebraska. Improvements throughout state government are increasing efficiency and improving quality.

** Total Quality Management -- T.Q.M. -- is being implemented in a number of state agencies: the Military, Public Institutions, Administrative Services, Economic Development, Education, Social Services, and many more.

** An Interagency Coordination Initiative is underway, sparked by employees in the Department of Labor and several other agencies.

** Coordination among agencies is also being improved through director exchanges, in which department heads change places for a short time to improve their understanding of each others' missions and operations.

Efficiency in government also requires a selective review of return on investment. Rather than appoint a large, general efficiency

commission, I intend to work with the Legislature and State Auditor to utilize small, short-term problem-solving teams, targeted to specific areas.

For example, I am forming a team to head up an assessment of our information technology strategy. This team will include leaders from the private sector that have experience with large-scale technology investments. They will be asked to assist in reviewing the current management structure for information technology, and to make suggestions for improvements that may be needed.

Efficiency measures will help us live within our means. But they will not help to slow the growth of government.

I intend to move aggressively to halt government expansion. I have already asked the directors of agencies under my direct supervision to devise a strategy for controlling growth.

Our goal is a lean and efficient state government, which is what Nebraskans want and expect. State employees clearly recognize that fact, as shown by their willingness to bite the bullet on salaries.

Major bargaining units have agreed to a package that is considerably less than I and they would have preferred. But it is a package that fits within the current budget context.

I want to thank the negotiating teams for their good faith efforts. And, I want to thank our valued state employees for their understanding.

During the special session on the budget, we agreed that cuts in most state aid programs for local governments were ill-timed. We served notice, however, that state aid would be on the table in 1993.

State government has taken a strong dose of castor oil -- managers with smaller budgets to administer, employees with smaller pay increases and larger workloads.

State operating budgets have taken cuts of two percent, one percent, and one-and-a-half percent over the past two years. And, I am proposing no increase for the next two years.

In order to balance the budget, local governments will be faced with the same difficult task -- spending less and becoming more efficient. I am proposing the following state aid cuts:

****A one percent reduction in aid to natural resources districts;**

****Restoration of the special session cuts made in the Municipal Infrastructure Redevelopment Fund, offset by an equal and permanent reduction in aid to municipalities;**

****No direct cut in state aid to counties, on the condition that increased fees be used for continuing implementation of the County Automation Project through the Department of Motor Vehicles, and for automation at the State Patrol;**

****No direct cut in state aid to education, offset by including teachers' salary enhancements as a part of LB 1059.**

This is unpleasant medicine. But it is part of the prescription for a balanced budget.

The choices are difficult. But they are necessary to plug the budget gap without a sales or income tax increase.

The challenge is formidable. But Nebraskans expect us to get the job done.

And together, we will.

These are times that call for unprecedented leadership.

Leadership that stands shoulder-to-shoulder to build our economy.

Leadership that works together solving problems like Medicaid.

Leadership with the courage to make tough choices on the budget.

Leadership that makes things happen.

It is a privilege for me to be a part of Nebraska's leadership.

The Committee escorted Governor Ben Nelson from the Chamber.

EASE

The Legislature was at ease from 10:35 a.m. until 11:00 a.m.

UNANIMOUS CONSENT - Member Excused

Mr. Schellpeper asked unanimous consent to be excused until he returns. No objections. So ordered.

BILLS ON FIRST READING

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

LEGISLATIVE BILL 314. Introduced by Warner, 25; Beutler, 28; Bohlke, 33; Crosby, 29; Lynch, 13; Schimek, 27.

A BILL FOR AN ACT relating to fees; to amend section 33-151, Reissue Revised Statutes of Nebraska, 1943, and section 33-150, Revised Statutes Supplement, 1992; to change the percentage amount