

and to repeal the original section.

LEGISLATIVE BILL 536. Introduced by Dierks, 40; Cudaback, 36; Cunningham, 18; Schrock, 38; Vrtiska, 1.

A BILL FOR AN ACT relating to ethanol; to amend section 66-1330, Reissue Revised Statutes of Nebraska, and sections 66-1344 to 66-1345.02 and 66-1345.04, Revised Statutes Supplement, 2000; to create production incentives; to impose an excise tax; to require a written agreement; to state intent; to harmonize provisions; and to repeal the original sections.

LEGISLATIVE BILL 537. Introduced by Dierks, 40; Cudaback, 36; Cunningham, 18; Schrock, 38.

A BILL FOR AN ACT relating to ethanol; to amend sections 66-489 and 66-4,105, Reissue Revised Statutes of Nebraska, and sections 66-482, 66-4,142, 66-1344 to 66-1345.02, and 66-1345.04, Revised Statutes Supplement, 2000; to change the tax on motor vehicle fuel; to create production incentives; to impose an excise tax; to state intent; to harmonize provisions; to provide an operative date; and to repeal the original sections.

MOTION - Escort Governor

Senator Redfield 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 Senators Bourne, Burling, Suttle, Stuhr, and Baker to serve on said committee.

STATE OF THE STATE ADDRESS

Lieutenant Governor Maurstad, Speaker Kristensen, Members of the Legislature, distinguished guests, friends, and fellow Nebraskans:

I am pleased to report that the state of our State is strong.

Our unemployment rate continues to be one of the lowest in the nation, our funding for education is among the best in the country, our population growth is exceeding expectations and our State continues to be a safe place for families. But there are some areas of concern – low commodity prices continue to negatively impact the agricultural economy while our nation as a whole is witnessing increasing signs of an economic slowdown. We should be optimistic yet cautious as we work together to build on our work of the last two years and the work of our predecessors.

For two years I have sought to advance five priorities with the objectives of improving our way of life and leaving Nebraska a better place than when I took office. Working together, we have made progress in providing property tax relief, limiting the scope of government in people's lives, building a prosperous economy for all 93 counties, protecting our families and communities from crime, and ensuring the health, safety, and success of our children.

This year I am proposing a budget and legislative package that builds on our success in these five areas.

Keeping true to my pledge of providing direct property tax relief, I am asking the Legislature to approve \$60 million dollars over the next two years for property tax relief through the State's community colleges. We have funded this method of providing direct property tax relief in each of the last two years. It has been successful and we should continue this effort.

In the area of less and more effective government, I urge the Legislature to approve legislation authorizing voluntary city-county mergers. This tool should be made available for those cities and counties where it makes sense and where voters approve the plan. It is time for us to follow up on the constitutional authorization given to us by voters in November 1998.

A top priority of my administration is to bridge the divide between our State's two economies – the prosperous urban economy of twenty to thirty counties and the struggling rural economy of sixty to seventy counties. Over the last two years we have worked hard to boost the rural economy by promoting value-added agriculture, providing incentives for rural job creation, and creating a grant program targeted to entrepreneurship in rural Nebraska. This session I am supporting a balanced package of economic development initiatives.

First, I propose creation of a program that will match Nebraska entrepreneurs with Nebraska investors, keeping both risk-taking entrepreneurs and capital investment within our State's borders. Second, we should continue funding the Affordable Housing Trust Fund which is helping to address the need for adequate and affordable housing in communities all across Nebraska – especially in our rural areas. Third, I support the Riverfront Development and Antelope Valley proposals that together will enhance the State's economy for years into the future. And finally, I support reauthorization of the Quality Jobs Act to encourage the creation of high quality, above average paying jobs across Nebraska.

I want to thank Senators Landis, Smith, Beutler, Quandahl, and Kristensen for their leadership and commitment to these economic development proposals.

In the area of ensuring public safety, adequate funding and support for the State Patrol has been a high priority for my administration. In this budget, I

propose the addition of eight new troopers, additional funding for six investigators, and state funding to replace lost federal funding for twenty-two civilian support personnel. I also propose funding for the Criminal Justice Information System and funding to begin implementation of the statewide wireless communications system. A uniform, reliable wireless system for law enforcement is a top priority to bolster the effectiveness of law enforcement which ensures public safety. I thank Senator Tyson for his good work in this area.

I am also seeking the support of this Legislature to assign troopers to the carrier division and allow current Carrier Enforcement Officers to transfer to the trooper rank while remaining in the Carrier Enforcement Division. Last year, nearly one-third of carrier enforcement officers left the division for jobs as troopers. Unfortunately, this has been a growing trend for several years.

This turnover creates serious concerns about public safety on Nebraska's roads and highways. By allowing carrier enforcement officers to transfer to trooper and remain in the carrier division, we can address retention issues and the resulting public safety concerns. It is my hope that some, if not all, of the concerns about this legislation in the last session have been resolved.

In my view, this significant public safety issue must be addressed and I thank Senator Bromm for sponsoring this initiative.

I am also submitting for your consideration and approval a substantial juvenile justice reform plan. For many years state policymakers have struggled to come to a consensus on how to proceed with much needed changes and improvements in our juvenile justice system.

This year I propose the enactment of a "gatekeeper" structure to coordinate juveniles' entry into the State system. Second, I ask you to fund an initiative that will expand the array of services available within the State juvenile system. This measure will alleviate overcrowding at the YRTC's by doubling the number of substance abuse treatment beds for juveniles and allow the development of mental health programming and aftercare services. Third, I propose the creation of a new aid formula to provide funds directly to counties for development of community-based programs for juvenile delinquents. Fourth, my budget includes funding to replace expired federal grant dollars so that current substance abuse treatment programs at both Kearney and Geneva can be sustained. Finally, I have proposed the transfer of an existing Department of Correctional Services facility to the Office of Juvenile Services for use as both a Level 5 secure youth treatment facility and as a site for development of a sex offender treatment program.

This is a comprehensive juvenile justice reform package that addresses priority needs. I look forward to working with Senators Brashear, Jensen, Thompson, Brown, Aguilar, and Dwite Pedersen and other members of this Legislature to advance juvenile justice reform this session.

I also ask this body to make a bold commitment to honor the life of the unborn. I, like many in our state, was saddened by the U.S. Supreme Court decision striking down Nebraska's law banning partial-birth abortion. My review of this decision tells me that until there is a change on the Court, there is no meaningful hope of ending this barbaric practice.

However, we are not powerless in this area, I ask you to strengthen parental notification by sending legislation introduced by Senator Quandahl to my desk for signature. And in every way possible, I ask you to help me promote adoption as an alternative to abortion. In addition, I repeat my commitment to sign into law a ban on the use of fetal cells in research that are derived from elective abortion. I also ask you to pass fetal homicide legislation for my signature as other states have done.

My budget also proposes a historic investment in education stretching from early childhood through post-secondary training.

We begin with an enhanced commitment to the health, safety, and success of our children.

I believe that a coordinated approach to the issues of early childhood development will lead to greater potential for success for all Nebraska children. That's why a year ago I created the Early Childhood Interagency Team lead by Lt. Governor Maurstad. The Team recently released a report detailing their work to date. I have endorsed several of their recommendations including their proposal to expand the Department of Education's successful Early Childhood Projects. My budget dedicates over \$3 million dollars over the biennium to accomplish this objective and other recommendations.

The collaboration between Health and Human Services and the Department of Education on early childhood issues has been productive and I am asking that they continue their good work.

Some of our State's greatest assets are public and private institutions of higher learning. It's often in higher education that our young people prepare themselves to realize dreams for their future and create our State's future. Therefore, I am pleased to make a historic commitment to higher education with the budget I submit today.

For several months the University of Nebraska leadership has made the case that they need greater resources to reach competitive status with peer institutions. To its credit, the University has undertaken critical reviews and the reallocation of resources over the last few years. That effort continues and I support the University in its task of setting priorities that will result in a more focused mission and a higher level of excellence.

The investment I propose for the University and the State Colleges is aggressive. My budget provides an increase of over \$26.6 million additional

dollars in the first year of the budget with another \$29.4 million added in the second year of the budget. At the same time, I challenge higher education in Nebraska, including the University, State Colleges, and Community Colleges, in three key areas:

- first, to encourage and actively recruit every Nebraska high school graduate to stay in Nebraska for his or her college education;
- second, to promote diversity among students and staff in higher education by actively recruiting students not only from across the United States but from around the world; and
- third, to promote collaboration, cooperation, and innovative partnerships which will ensure unparalleled educational opportunities for our students.

In addition, I applaud Senator Kristensen for continuing to lead the discussion about reorganizing higher education governance in our State. This body will have my cooperation and support in moving this debate forward.

My proposal for increased investment in higher education extends to an initiative I support to significantly bolster world-class medical research at the University of Nebraska Medical Center, Creighton University, Boys Town Research Hospital, and the University of Nebraska-Lincoln. If you visit these facilities, you will be enormously impressed by the cutting edge research that is currently underway. We have a once-in-a-lifetime opportunity to dramatically advance medical research by committing additional resources to these efforts.

Together, we should formulate a rational approach for utilizing the proceeds from the tobacco settlement. I propose that a major endowment be dedicated to biomedical research at these facilities while leaving the majority of the tobacco funds for significant public health needs.

We are so close to solving once and for all the riddles of many diseases with this research. These funds can offer a new day and a new life for Nebraskans and people around the world.

In addition to this research, there are many needs to be funded with the remaining portion of the tobacco settlement. You know as I do that there are many health care needs in Nebraska that are not being met. I would submit, however, that there is no, and I repeat, no greater priority for funding than in the area of mental health.

I have met families from across the State with heartbreaking stories of loved ones who have no services, no hope, and no future. Their issues are very real to me.

To the many families throughout our State who long ago gave up hope, our prayers are with you. Most importantly, I want them to know help is on the way.

Therefore, I propose we significantly boost funding for mental health. First, let's agree to make mental health funding the highest priority with the remaining tobacco settlement dollars. Specifically, I propose dedicating \$6 million in tobacco settlement funds for mental health over the biennium.

Second, let's join together to increase general fund support for mental health. Including the tobacco settlement funds, I propose increasing mental health aid from \$28.5 million in the current fiscal year to \$33.6 million dollars in fiscal year 2002 and to \$38.7 million dollars in fiscal year 2003. This represents a more than 35% increase over the biennium.

I recognize that even more needs to be done and so I pledge to do what I can to help Senator Jensen and the Health and Human Services Committee and Senator Wehrbein and the Appropriations Committee to identify mental health needs, prioritize them, and fund them. Maybe we can do more than what I propose today.

Altogether, I am submitting a biennial budget with a two-year average growth rate of 7.4 percent. It's a rate of growth that I am not comfortable with. I wish it were lower.

There are three items in my budget recommendations that influence this calculated rate of growth: financing the operational costs for a new prison at Tecumseh, continuing the \$30 million dollar increase in community college aid for direct property tax relief, and providing State funding to school districts when the maximum property tax levy is reduced to \$1.

Without these three items, the first year increase would be 3.2 percent and the two-year average growth rate would be 4.7 percent.

Medicaid, property tax relief, and education funding are high priorities for our State. They are not inexpensive to finance and they are driving spending growth in this budget.

Consider that total State spending on K-through-12 education, including special education, will grow from \$708.7 million dollars in this current fiscal year to \$807.9 million dollars next year and to \$846.9 million dollars the following year. Any way you look at it, this is a tremendous amount of money – a tremendous amount of State sales and State income tax dollars are being distributed to local school districts.

As I said earlier, no legislative session is entirely new – we build upon the choices of our predecessors. This legislative session is no exception. In 1996, the Legislature adopted, and the Governor approved, proposals in the areas of property tax relief and State funding for K-through-12 education and a very deliberate, conscious decision was made to set K-through-12 funding above all other State priorities. Education has always been a priority for funding. The facts demonstrate our commitment.

Nebraska ranks 12th nationally in pupil-teacher ratio – we have more teachers per student than 38 other states.

Nebraska ranks 10th per capita in state and local government expenditures for education – educating kids is a higher budget priority per person in Nebraska for state and local government combined spending than in 40 other states.

Nebraska ranks 9th per capita in local government expenditures for elementary and secondary education – educating kids is a higher spending priority at the local level in Nebraska than in 41 other states.

And Nebraska ranks 3rd – I repeat 3rd - nationally in expenditures for education as a percent of all state and local government expenditures. We rank higher than 47 other states.

Ladies and gentlemen, the dollars we are committing to K-through-12 education this year will redefine these rankings.

Today I submit a budget to you that increases our State investment in K-through-12 education to a level greater than at any point in our state's history. Although I disagree with the auto-pilot nature of the State aid formula that was enacted over my veto in 1999, I can tell you that my budget honors and fully funds the cost of the \$1.10 to \$1.00 levy drop on an aggregate basis. My budget increases TEEOSA funding by 21.7% over the course of the biennium. Further, I have increased funding for special education by \$14.3 million dollars over the biennium to assist our local school districts in meeting this rising cost.

Last session I signed legislation boosting the allowable growth rate for the State's share of special education costs. Also last year, Lt. Governor Maurstad successfully worked with our congressional delegation to move the federal government closer to fulfilling their commitment to fund a larger share of the cost of special education. I want to recognize our congressional delegation for their commitment to increased special education funding. The federal government has a long way to go in this regard, but I am optimistic that progress will continue.

With a dramatically increased State investment in K-through-12 education, it's only natural that we expect a return on our investment. We expect our young people to be prepared to pursue their dreams.

Over the last two years, and working with Commissioner Christensen and the State Board of Education, we have advanced a progressive agenda of excellence in education. From accountability, to safety, to standards, we are moving in the right direction. However, one area that remains to be addressed is school discipline. This session I urge you take up and pass

legislation that gives teachers the ability to keep control of their classrooms and foster a healthy learning environment.

As State policymakers we walk a fine line when it comes to K-through-12 education. Over time it has become a part of who we are as a State not only to demand local decision-making in K-through-12 education, but to also fight back any state or federal infringement on this philosophy. We've attempted to honor that important value over the last ten years even as the State moved from funding 25% of the cost of K-through-12 education to funding about 50% of the cost today.

In building the K-through-12 funding formula, local decision-making was honored in many ways and the money has been distributed with few strings attached. Over the next two years, over \$200 million in new money will flow to K-through-12 districts. Locally elected school boards will decide how best to spend this money based upon their own districts' priorities.

Now, we are being asked to depart from this practice in some form or fashion to address teacher salaries. An issue that historically has been handled at the local level, district by district, has been carried to the door of the Capitol.

First, I want to thank the Teacher Salary Task Force for their effort to develop recommendations on this issue. We have a much better understanding of the complexities of this issue today than a year ago because of their work.

Today I am announcing my support for some of the Task Force recommendations.

I commit funding for two programs that will help attract students into the teaching profession and improve the quality of teachers in the State of Nebraska. The Attracting Excellence to Teaching Program will provide loans to teacher education students who agree to teach in Nebraska public or private schools. Borrowers will be eligible to have loan repayment forgiven for each year they teach in Nebraska. The Master Teacher Program will provide an annual financial incentive for public and private school teachers who achieve rigorous national certification. Also, I want to thank Senator Redfield for introducing legislation at my request to adopt the mentoring program supported by the Task Force to assist teachers entering the profession.

However, the one-size fits all across-the-board bonus plan suggested by the Task Force is not a workable solution. Their work shows that teacher salaries are above the national average in some areas of our State while in other areas they are not.

This is a complex issue because there are 563 school districts in our state that have been historically free to negotiate and set their own teacher compensation packages. The system has evolved to include endless

differences in pay plans and benefit plans. But that's reflective of local control and local decision-making.

Allow me to briefly point out a few significant issues that make this point.

First, benefit packages do matter in evaluating and comparing compensation. Some districts have far superior packages for teachers than other districts. Second, while the pay for teachers in some school districts is well below the national average, pay in other districts is at or above the national average. And third, some districts have the financial capacity to pay teachers more but have chosen not to do so while other districts do not have the financial capacity.

So let's roll up our sleeves and work in this legislative session to address this issue. I suggest these guiding parameters for discussion:

- One size fits all is not the solution;
- Any solution must respect local decision-making;
- Cooperation must exist between local and state government;
- Equalization between districts is an important goal that should not be abandoned;
- The solution must fit within our current resources – I will not support a tax increase; and
- Where possible, within constitutional parameters, private school teachers should be able to participate in any state level programs.

Further, I suggest that the creation of any plan be guided by the principles laid out by the highly respected Milken Family Foundation through their Teacher Advancement Program.

The main tenets of that program are:

- 1.) teachers deserve opportunities to advance in their profession, and should be rewarded for their efforts;
- 2.) compensation should be market-driven and provide flexibility to reward performance;
- 3.) there must be performance-based accountability in hiring, and advancement decisions should be based on performance reviews;
- 4.) there must be continuous professional development; and,
- 5.) we must act to expand the supply of high quality teachers.

These are the components for a workable solution that I can support and, most importantly, that will truly address the challenge at hand.

The debate should not be about how much money we are spending on education or how much more we should spend. The fact is 52% of the state budget is dedicated to education.

The debate must be about performance, accountability, and standards. The debate must be about raising the bar.

I look forward to working with Senator Raikes, all members of this Legislature, and the many stakeholders on this issue. My door is always open. Let the dialogue begin.

In closing, I know you join me in recognizing that serving and governing is really about priorities. As I've traveled across our State and listened to Nebraskans, it is clear that property tax relief and educating our children continue to top the list of priorities.

Let's meet those priorities by providing effective, direct property tax relief with an additional \$60 million dollars through community colleges. And let's affirm our commitment to our children's future by enhancing early childhood development programs, increasing State aid to K-through-12 education by \$182 million dollars over the next two years, and by making an additional investment in higher education.

It's an agenda that provides tax relief today and sows seeds for our future.

Thank you, God bless you, and God bless Nebraska.

The Committee escorted Governor Mike Johanns from the Chamber.

BILLS ON FIRST READING

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

LEGISLATIVE BILL 538. Introduced by Speaker Kristensen, 37; at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to amend Laws 1999, LB 877, sections 9 and 10; Laws 1999, LB 880, sections 15, 28, 30, 39, 99, 108, 150, 232, 233, and 241; Laws 2000, LB 352A, section 1; Laws 2000, LB 1217, sections 69, 75, 84, 89, 94, 113, and 117; to define terms; to provide for deficit appropriations; to appropriate funds for the expenses of state government, postsecondary education, capital construction, and state aid; to state and eliminate intent; to change appropriations as prescribed; to change transfers; to repeal the original sections; and to declare an emergency.

LEGISLATIVE BILL 539. Introduced by Speaker Kristensen, 37; 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 FY2001-02 and FY2002-03; to define terms; to provide an operative date; and to declare an emergency.

LEGISLATIVE BILL 540. Introduced by Speaker Kristensen, 37; at the request of the Governor.