

STATE OF THE STATE ADDRESS

"Working together, we have made Nebraska better prepared to compete in the 21st century and I have confidence in our ability to build an even brighter future in the years ahead."

- Dave Heineman, Governor

Mr. President, Mr. Speaker, Members of the Legislature, Tribal Chairmen, Distinguished Guests, Friends and Fellow Nebraskans:

Today, I want to ask you to think about the phrase "once in a lifetime."

Many of us in this room, and Nebraskans all across our great State, have been fortunate to experience some of the most remarkable firsts in the history of America.

In 1969, Neil Armstrong became the first person to walk on the moon. In 2007, Clayton Anderson became the first Nebraskan to travel into space. In 1971, American Ray Tomlinson sent the world's first e-mail. Today, 1.3 billion people worldwide are communicating via e-mail and Nebraskans have immediate access to us through e-mail. In 1981, Sandra Day O'Connor became the first female U.S. Supreme Court Justice. In Nebraska, we now have more women serving as judges than at any time in our history.

In just a few days, America will celebrate another important first: the inauguration of our first African-American President, Barack Obama. This event deserves special acknowledgement and recognition.

Just as we look forward to what is in store for our nation, this legislative session will be a historic experience for Nebraska. With the convening of the 101st Legislature in this newly restored chamber, we have begun a new chapter in Nebraska history.

This session marks the full impact of term limits. You bring a new vitality, new enthusiasm and new ideas to the Nebraska Legislature. I know we have the same respect and sense of responsibility for the task of lawmaking and governing. While we have different roles, our citizens expect us to work together in the best interests of Nebraska. We can be proud that we have the only nonpartisan legislature in the country where policies matter more than politics. I am excited for the opportunity to work with you to address the issues that face our State.

During the past four years, we have laid the foundation that is preparing Nebraska to compete in a 21st century, knowledge-based, technology-driven economy. We have changed Nebraska for the better.

Together, we modernized Nebraska's economic incentives, created jobs, lowered taxes, and controlled spending, while investing in the most important priorities of our State. Since the passage of our economic incentive program in 2005, the Nebraska Advantage has been remarkably successful. One hundred and eighty-five companies have decided to expand or locate in Nebraska. These companies are expected to invest more than \$5.3 billion in our economy and create more than 15,000 new jobs.

Our vision for the future is about creating jobs that keep our sons and daughters right here in Nebraska. Creating jobs is only part of the reason for Nebraska's economic growth of the past several years.

Prioritized investments in areas critical to our continued growth have been equally important. Thanks to the leadership of Senator Lavon Heidemann and the Appropriations Committee, we enacted a fiscally-responsible budget. We achieved an annual growth rate of 4.6 percent for the current biennium, while still remaining committed to the education of our children and the needs of those who are less fortunate. The growth in the current budget is significantly less than the nearly 7 percent growth of the last two decades.

This savings has allowed us to lower taxes for Nebraskans. Working together, we eliminated the marriage penalty in our state income tax system. We repealed the estate tax. We repealed the sales tax on construction labor. We expanded the earned income tax credit. And we lowered agriculture land valuations from 80 percent to 75 percent.

In 2007, members of this body and I worked together to enact the largest tax relief package in the history of our State, which benefits Nebraska's middle class families, farmers, ranchers, and small business owners.

We have made significant progress. But, as we look ahead to the coming biennium, some of our fellow citizens are experiencing job layoffs, furloughs or reductions in the hours they work. Clearly, we are heading into an uncertain economic future.

We need only look to the example of how Nebraska accomplished the construction of a new State Capitol in the midst of the worst economic depression of the 20th century for inspiration in managing the situation we face today. When construction began in 1922, America was at the height of the Roaring Twenties. Economically, times were great. But in 1929, the economy crashed and Nebraskans were faced with a challenging decision. The Capitol's skyscraper tower had not been built and there was a growing sentiment to stop building.

Nebraskans, however, are "can do" people. They knew that the building could be completed by prioritizing the remaining projects. Three years later, the Capitol was completed as designed, crowned by the Sower that has become a cherished symbol of our great State. This story speaks to our heritage as Nebraskans. We have always been hardworking and practical. We are patient, prudent and judicious.

These values are why Nebraska continues to be one of the few states not currently facing a financial crisis. However, the challenges facing other states provide a picture of what could lie ahead for us.

Last month, the State of Kansas did not have enough cash on hand to fully fund their monthly state aid to education obligation. In December, the State of Minnesota cut \$271 million from their current budget. Iowa recently announced an across the board cut of 1.5 percent to their current state budget, which included a \$33 million cut in school foundation aid funding.

In Nebraska, we made the tough budget decisions two years ago that were necessary to control spending. Our hard work has better positioned us to weather the coming fiscal storm.

Additionally, we are working with state agencies to encourage each department to find ways of saving money during the current fiscal year. State agencies that reduce spending now will have my support, and the support of your Appropriations Committee Chairman, in applying that savings toward next year's budget. Our attitude of encouraging agencies to "save it and keep it" is a more business-like approach than the past practice of "spend it or lose it."

Our efforts to grow Nebraska's economy, our commitment to lower taxes, and our disciplined approach to budgeting the people's resources have helped produce and preserve a robust cash reserve. While the next few years will present one of the greatest financial challenges of our lifetime, the budget recommendations I'm submitting today reflect a continued commitment to economic growth and education.

Preparing this budget started with an assumption that was very different from how we have previously approached this process. Past budget recommendations have been based on Nebraska's latest economic forecast.

The nation's deteriorating financial situation and the impact we are beginning to experience in Nebraska indicates that the Forecasting Board's October forecast is no longer realistic. That forecast projected the State's revenue growth to be \$49 million for fiscal year 2010. My budget envisions

zero revenue growth in fiscal year 2010. These recommendations are an attempt to prepare the state for the likelihood that by the time the Forecasting Board meets in April, Nebraska's projected revenue will be less than the October forecast.

We must prepare our state for a slowing economy. State government must tighten its belt just like Nebraska families and businesses are doing. My budget recommendations are a plan for Nebraska to operate with limited financial resources.

Even with limited resources, it is possible to follow four principles that have been and remain crucial to our economic success.

First, we must ensure there will be no tax increases.

Despite the progress we have made lowering taxes, the fact is Nebraska is still a high tax state. Nebraskans need tax relief. This budget funds the \$230 million property tax credit program established two years ago.

The failure to fund this program would be a property tax increase on every home owner in Nebraska. In an economic downturn, increasing property taxes on middle class families, seniors living on fixed incomes, small businesses, and farmers and ranchers is unacceptable. I am opposed to increasing taxes on Nebraskans.

Second, we must place a special priority on funding our children's education.

During my four years as Governor, education has been a special priority for me. Education is the great equalizer and a quality education is essential for our children's ability to compete in a knowledge-based, free market economy.

My budget invests an additional \$100 million in state aid to education, increases funding for special education by \$16.8 million, provides an additional \$25.6 million to the University of Nebraska, and funding for state and community colleges will grow by approximately \$4 million.

Eighty-five percent of the new spending in my budget will be for investments in the education of our children. Our most precious resource is our kids and I want to ensure that we provide them a quality education. In the coming biennium, the State of Nebraska will invest a record \$1.7 billion annually in K-12 and higher education.

The third principle is we must continue funding programs for vulnerable children and families.

Medical assistance for seniors and the disabled, and public assistance for disadvantaged children and families are valuable programs. The SCHIP program provides health insurance for needy children. The care and treatment for the developmentally disabled and those with mental illness or substance abuse issues requires our special attention. And providing for our veterans living in the State's four veterans homes is absolutely essential.

In the coming biennium, Health and Human Services will spend more than \$1.2 billion annually for these critical programs that assist Nebraskans.

As we are all aware, there has been much public discussion surrounding the issue of families in need of additional behavioral health services and help navigating the system. Today, Senator Gay and Senator Howard will be introducing the "Children and Families Support Bill" that addresses many of the needs we witnessed over the summer.

Our three-pronged approach provides families seeking assistance with difficult children and teens direct access to skilled professional help and support. The proposal will create a 24/7 hotline staffed by mental health professionals for parents and guardians throughout the State. It also includes a peer program that will connect parents whose children are in need of services with parents experienced in navigating the behavioral health system. Finally, the proposal will create a new, voluntary post-adoption and post-guardianship case management system that will provide transition and continuity for families, and I look forward to working with the Legislature on this issue.

The fourth and final principle is we must maintain a strong cash reserve, despite the ever-present pressure to increase spending.

Our State faces contingent liabilities that could easily total \$200 million. On the cash reserve fund status of my budget, I have accounted for these liabilities, which include potential water litigation, the possible loss of federal funding for the Beatrice State Developmental Center, and teacher and state employee pension losses due to a declining stock market.

The final element of my budget recommendations includes using \$40 million annually over the next two years from the cash reserve fund. The Cash Reserve is our rainy day fund, but we need to be mindful that it is only beginning to rain. Preserving a strong cash reserve is essential in order to avoid future tax increases.

The budget I've submitted for your consideration reflects the realities and the challenges presented by a slowing economy.

Decisions made with forethought and planning two years ago have put Nebraska in the position to weather the coming fiscal storm. Making difficult but wise decisions today will position our State to emerge stronger when the national economy improves.

This budget is about Nebraska's future. Even in difficult economic times, it is important that we continue to position Nebraska for future growth. This is an opportunity to continue promoting Nebraska as a great place to live, to work and to raise a family.

Working together, we have made Nebraska better prepared to compete in the 21st century and I have confidence in our ability to build an even brighter future in the years ahead.

The committee escorted Governor Dave Heineman from the Chamber.

BILLS ON FIRST READING

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

LEGISLATIVE BILL 311. Introduced by Speaker Flood, 19; at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to amend Laws 2007, LB 320, sections 32 and 34, Laws 2007, LB 321, sections 111 and 117, Laws 2008, LB 959, sections 57, 72, 74, 76, and 90, and Laws 2008, LB 988A, section 1; to define terms; to provide, change, and eliminate provisions relating to appropriations; to reduce an appropriation; to provide for a transfer of funds; to state intent; to require reports; to repeal the original sections; and to declare an emergency.

LEGISLATIVE BILL 312. Introduced by Speaker Flood, 19; 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 FY2009-10 and FY2010-11; to provide an operative date; and to declare an emergency.

LEGISLATIVE BILL 313. Introduced by Speaker Flood, 19; 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