

Kelley & Jerram, P.C., L.L.O.
 Advantage Capital
 McElyea, Gary
 Coca-Cola Refreshments
 Micek, Cora
 Peetz & Company
 Mines, Mick
 3M Traffic Safety Systems
 Cargill
 Corn Growers Association, American
 Grocery Industry Association, Nebraska
 Humane Society, Nebraska
 Insurance and Financial Advisors, National Association of
 Johnson & Johnson
 League of Nebraska Municipalities
 Mines & Associates
 Papio Valley Preservation Association
 Syngenta
 Mueller Robak LLC
 Facebook
 Grow Ashland
 Stevens, Bradley J.
 Americans for Prosperity
 Wagner, Sylvia B.
 League of Women Voters of Nebraska
 Wieczorek, Bridget
 Nurse-Midwives, Nebraska Affiliate of the American College of,

MOTION - Escort Governor

Senator Harms 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 Address.

The motion prevailed.

The Chair appointed Senators Fischer, Pahls, Heidemann, Cornett, and Howard to serve on said committee.

STATE OF THE STATE ADDRESS

Governor Dave Heineman

State of the State Address
 January 12, 2012
 102nd Legislature
 Second Session

*"Our choice is between providing tax relief for hard-working, middle class taxpayers or more spending for special interest groups.
 I will fight for taxpayers."*

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

I am pleased to be here at the beginning of the 2012 Legislative Session, and I want to acknowledge and recognize that nine of your members will be leaving the Legislature at the end of this year. They include your outstanding Speaker, a steady and rock solid Appropriations Committee Chairman, a superb Revenue Chair, a tenacious Transportation Committee Chair, an effective Natural Resources Committee Chairman, an excellent Banking Committee Chairman, a fighter for Western Nebraska, an advocate for children and families, and a fiscal and social conservative. Senators Flood, Heidemann, Cornett, Fischer, Langemeier, Pahls, Loudon, Howard and Fulton – thank you for your service. Individually and as a group, you have done an outstanding job and Nebraskans appreciate your service.

I am proud of the Legislature and what we have accomplished together. I am proud of our citizens for their input, their insight and their leadership.

Every day I am proud to be the Governor of this great State. As I enter my eighth year as Governor of Nebraska, I am more determined than ever to keep Nebraska moving forward and to address the key challenges of today.

One of the most important challenges that we face is the safety of children that are part of Nebraska's child welfare system. Reforming Nebraska's child welfare system is complicated and complex with no single simple solution. We didn't get into this situation overnight, and we won't get out of it overnight.

It was just a few years ago when many Nebraskans were unhappy with and complaining about how the Department of Health and Human Services was operating the child welfare system. The decision was made to reform the system and change the culture that was necessary to move forward. It hasn't been implemented as well as anyone would like, but I don't want to return to the failed practices of the past. I want us to do better in the future and my sense is so do you.

This is a very difficult challenge because no single one entity of government is totally in charge of the child welfare system. It involves local law enforcement, county attorneys, parents, guardians ad litem, CASA volunteers, foster parents, the Department of Health and Human Services, providers, the courts, the Legislature and many others. Nebraska continues to place children into the child welfare system at approximately two times the national average. We can and must do better than that.

Your Health and Human Services Committee has provided the state a series of recommendations to begin a conversation about how the courts, the Legislature and the Executive Branch can work together to develop a more collaborative, a more coordinated and a more comprehensive approach to

protecting Nebraska's children. I've read the committee report several times. I am working with the leadership of your Health and Human Services Committee to develop a common sense plan of action for the future and I want to thank Senator Campbell and Senator Gloor for their vast commitment of time to this issue.

I want to emphasize what I have said previously, I have no intention of reinstating the lead agency model in the central, northern or western service areas. The focus must be to provide a more efficient delivery of services that helps our children. I support efforts to streamline the focus of the current child welfare system and I have asked Senator Ashford and Senator Hadley to introduce legislation that transfers the management of the youth rehabilitation and treatment centers at Kearney and Geneva from the Department of Health and Human Services to the Department of Correctional Services. This would create a safer treatment environment at these facilities for the youth and the staff. The transfer will also allow the Department of Health and Human Services to put a greater focus on children impacted by abuse and neglect.

We're all in this together. All of us have a responsibility to improve the system. The accountability starts with you and me. Together, we need to bring stability to Nebraska's child welfare system. The focus should be on the future and on measurable results.

Another key issue that we face is the new federal health care law that raises taxes, cuts Medicare and contains an enormous unfunded Medicaid mandate. Because it is the current law, our state is moving forward with the planning and designing of a state health insurance exchange.

Our state has been working hard for nearly two years to protect Nebraska's interests, and I want to assure you and our citizens that Nebraska will not default to the federal government regarding a health insurance exchange. However, it is important to recognize that the United States Supreme Court will decide whether this law is constitutional or not by June 29 of this year. In an unprecedented move, the Supreme Court will have three days of oral arguments on this issue in late March. The simple truth is it would be a costly mistake to spend millions of taxpayer dollars to begin implementing Obamacare until the United States Supreme Court makes its decision.

Another critical issue is our proposal to merge the Department of Labor into the Department of Economic Development. This is the opportunity for business, labor and state government to provide a more coordinated and an even greater focus on job creation, worker training and worker retraining. Thank you Senator Harms and Senator Mello for introducing this bill.

Most importantly, we have worked together to put Nebraska in a strong financial position. We have made difficult decisions for the good of our state. Nebraska hasn't always been as well positioned as we are today. When Senators Flood, Heidemann, Cornett, Fischer, Langemeier, Pahls, Loudon

and Howard began their terms in January of 2005, and when I assumed the office of Governor that same month, the state had just experienced some very tough economic times. Taxes were too high, too many young people were leaving the state, and Nebraska wasn't competitive nationally or globally for jobs.

You and I worked in cooperation with our citizens and our business leaders to dramatically alter Nebraska's economic position. Working together we passed the Nebraska Advantage, and it has been incredibly successful.

Approximately 270 businesses have committed to invest more than \$ 5.9 billion in our economy and to create more than 19,500 jobs here in Nebraska. Working together we passed the largest tax relief package in Nebraska's history that repealed the estate tax, eliminated the marriage penalty in the income tax system, repealed the sales tax on construction labor and lowered income taxes. We wisely built up our cash reserve. We worked together to control the growth of state spending and to pass balanced budgets without raising taxes. We adopted a business-like approach to agency budgets encouraging them to save money and keep it, compared to the previous practice of spend it or lose it.

State government began tightening its belt just like Nebraska families and businesses were doing and look at the results. Nebraska has the second lowest unemployment rate in America at 4.1%. According to Forbes, Nebraska is the eighth best state for business and careers. Nebraska has the fourth largest agriculture economy in America. MSN Careers says Nebraska is the third best state for job seekers. According to Forbes, Lincoln is one of America's safest cities and it is the best city in America for new jobs while Omaha is the most affordable city in America and the fifth best city in America for young professionals. According to CNN Money, Papillion is the fifth best place in America to live.

Bloomberg Business Week identified Arlington, Nebraska as the second best place in America to raise kids because it's a Midwestern farming community with top notch schools. Think about it, that's Nebraska – small towns, safe communities, good jobs, great schools, affordable homes, and an unmatched quality of life. Whether it's Arlington, Wahoo, Auburn, Holdrege, Imperial, Scottsbluff, Gering, Valentine, Cedar Rapids, Norfolk, North Platte, Kearney, Grand Island, York or a neighborhood in Lincoln, Omaha or Sarpy County, Nebraska communities are the American Dream. We have faith and confidence in Nebraskans, their families and our communities. We believe in freedom, hard work and self-sufficiency. We believe in providing every child the opportunity to receive a quality education.

Let me say it again - Nebraska has what hard-working American families want – safe communities, good jobs, great schools, affordable neighborhoods and an unmatched quality of life. America's elite cities are

too expensive for middle class families. These cities have high taxes and burdensome regulations, both of which discourage job creation.

Today, technology connects us like never before and now Americans can live and work anywhere. This provides Nebraska an opportunity for growth like we have never before seen. America's middle class families want to live in states like Nebraska because we have career opportunities, short commute times, a lower cost of living and a sense of community. For the first time ever, Nebraska's population growth exceeded the national average for two years in a row in 2009 and 2010, and in 2011, Nebraska only narrowly missed growing as rapidly as the national average. Nebraska has economic and education momentum. Working with our citizens, we have developed a bold, innovative and strategic vision to grow our economy and to strengthen our education system.

Just last year we invested in the University of Nebraska's Innovation Campus. We passed the Talent and Innovation Initiative to continue improving Nebraska's small business and entrepreneurial environment. We've made exceptional progress during the past few years, but we have more work to do.

According to the Tax Foundation rankings, in 2006 Nebraska was one of the top ten highest tax states in America. Nebraska was 45 out of 50 states. Today we are 29th. Since 2006, Nebraska has made greater and more significant improvement in our tax climate than 48 other states.

That's good news, but we can do better than 29th. Even with our healthy economy, many Nebraska middle class families still struggle from paycheck to paycheck. We can help these families by changing Nebraska's income tax structure and allowing them to keep more of the money they make. If your adjusted gross income is more than \$54,000, you are taxed at the same marginal rate as Warren Buffett. That is unfair to middle class families. Our hard-working taxpayers are tired of government taking too much of their paycheck.

In 2011, Nebraska net tax receipts grew by \$ 349 million. The opportunity to provide tax relief for our taxpayers is now. Our hard-working, middle class taxpayers need more discretionary income to take care of their families and to provide their kids with a good education.

For the past few months, I have been working with Senator Cornett to develop a major tax relief initiative for Nebraska's hard-working, middle class families and today Senator Cornett is introducing that bill. Senator Cornett, thank you. We are asking you to join us in providing tax relief for Nebraska's middle class taxpayers. Our proposal lowers rates and expands the brackets so that Nebraska's hard-working taxpayers can keep more of their income.

Our proposal eliminates the inheritance tax. You've probably seen the recent headline in Forbes – Nebraska is named as a state "Where Not to Die in 2012." Even high tax states like Massachusetts, New York and California don't have an inheritance tax. Nebraska is one of only eight states that has an inheritance tax and we need to change that. I know you'll hear from county officials, but this is about good tax policy and completing the elimination of the death tax.

Our proposal reduces the corporate income tax rate to help small businesses grow. Our highest priority should be tax relief for Nebraska's hard-working, middle class taxpayers. Special interest groups will argue we can't afford tax relief because they want to take that money from our hard-working taxpayers and spend it on their favorite projects. The question is tax relief for hard-working middle class Nebraska taxpayers or more spending for special interest groups? The choice for us is clear.

I'm going to fight for Nebraska's hard-working taxpayers because they need our help. For example, if you are a young family of four living in south Omaha with an adjusted gross income of \$30,000, with our proposal, you will receive a 29.5% tax cut. If you are a single mom living in northeast Lincoln with two kids with an adjusted gross income of \$40,000, you will receive a 10.5% tax cut. If you are a hard-working middle class family of four living in Bellevue, York, Kearney, Valentine, Alliance or Columbus with an adjusted gross income of \$75,000, you will receive a 10.9% tax cut. If you live in Norfolk or Grand Island and your adjusted gross income is \$100,000, your tax cut will be 7.2%. However, if you live in central Omaha and your adjusted gross income is \$1,000,000, you will only receive a 2% tax cut.

The focus of this bold tax relief plan provides Nebraska's hard-working, middle class taxpayers the help they need. Nebraska families have had to tighten their belts and learn to do more with less. So should government.

This is about our future. This is our time. This is our moment in history. Together we can make it happen. Let's get to work.

Thank you.

The committee escorted Governor Dave Heineman from the Chamber.

SENATOR GLOOR PRESIDING