

STATE OF THE STATE ADDRESS

"You can lower taxes on Nebraska's middle-class families, farmers, ranchers and small business owners. I am willing to work with you anytime, anywhere to develop a responsible and meaningful tax relief plan. Nebraska can afford tax relief."

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

I want to begin my remarks today by thanking our fellow citizens for their dedication and commitment to their communities, our state and the United States of America. Our Nebraska values of personal responsibility, family, hard work and fiscal responsibility have kept Nebraska in better shape than the rest of the country.

We've learned how to compete in global markets. We've strengthened Nebraska's education system by focusing on academic excellence and academic improvement. We care about our children.

Every legislative session we have tackled the tough issues head on and we have made the difficult decisions that move Nebraska forward. We have a responsibility to provide our citizens and future generations with the opportunity to succeed.

This session will be no different. The issues that we need to resolve and the course that we need to chart for our state are serious and substantial. Not everyone will agree on every issue, but our decisions will greatly impact Nebraska's future success.

So, let's begin our conversation today about one of those challenging and important issues – health care. President Obama said if you like your current health care plan you can keep it. "Period." Unfortunately, that's simply not true. Millions of Americans have received cancellation notices of their current health care plans because of Obamacare.

The implementation of Obamacare has been one disaster after another. Deadline after deadline has been missed or waived. President Obama promised the American people that if you already have insurance, his plan would reduce your insurance premiums up to \$2,500 per family per year. Again, this is not true. The facts show otherwise.

The Manhattan Institute analyzed insurance rate changes as a result of Obamacare and found that Nebraskans will be among the hardest hit Americans. The required parts of the new federal health care law alone will cost the State of Nebraska more than \$200 million in state general funds over the next six years. That is \$200 million in funding that could be used for education.

President Obama and his White House political operatives are trying to pressure Nebraska into expanding Medicaid, but Nebraska will not be intimidated by the Obama administration. The United States Supreme Court said Obamacare's Medicaid expansion is optional. It is up to each state to decide how they want to proceed.

The financial reality of expanding Medicaid is very simple. Expanding Medicaid will result in less future funding for state aid to education, special education, early childhood programs, the University of Nebraska, our state college system and our community colleges.

Additionally, the federal government is already trillions of dollars in debt, and unlikely to fulfill its promised commitment. We have seen this happen before. For example, the federal government's commitment to special education funding has not been met.

We have researched and studied the Medicaid expansion issue carefully, thoughtfully and methodically. The responsible choice is to reject this optional Medicaid expansion.

Another important issue that needs to be addressed is Nebraska's approach to crime and punishment. There are short term and long term components to this issue. Allowing the most violent criminals to enter into our state's prison system and have their judge-imposed sentences automatically reduced by one-half through the use of the current "good time" program is not sound public policy.

As you know, the current law allows violent criminals to automatically receive "good time" the moment they enter a Nebraska correctional facility. The public safety of our citizens should be priority number one and that should start with violent criminals being required to earn "good time."

I have done all that I can administratively by approving a change to our rules and regulations that allows the Department of Correctional Services to take away twice as much "good time" when a prisoner assaults a corrections official or another inmate. Now, it's up to you to reform the "good time" law. The recent murders were a wake-up call for every one of us. The people of Omaha and the citizens of Nebraska should be able to walk the streets of their neighborhoods without fear of being shot.

Another important issue regarding prison capacity is a long-term Department of Correctional Services study. This study will provide us valuable information on the long term needs of the state prison system. Since the study will not be completed until this summer, it would be premature to recommend what the future needs are for the Nebraska correctional system.

In the meantime, we are addressing short-term prison capacity issues. My deficit budget request includes funding for additional security staff,

contracting with county jails, increasing the McCook Work Ethic Camp prisoner population and reducing the number of federal detainees in Nebraska's prison system.

The other critical crime issue that should be addressed involves sentencing reform and punishment. I am prepared to work with the Nebraska Legislature, the Nebraska Supreme Court, the Department of Correctional Services, and the Council of State Governments in developing a long-term prison capacity strategy. There may be opportunities for our state to enact innovative solutions that ensure public safety at a lower cost for our taxpayers. I also look forward to a vibrant discussion of the proposal to enact a limited supervised release program in order to reduce the number of prisoners who reoffend after they leave the state prison system.

Now, let's discuss the biggest and most important issue facing the State of Nebraska - high taxes.

Why is this issue so important? Tax relief is a major driving force for economic success. Nebraska's strong agriculture economy won't continue to exist with unreasonably high property taxes.

When agriculture fares poorly, so does rural Nebraska. However, when agriculture succeeds, rural Nebraska and main street Nebraska flourish.

The success of small businesses is also an essential component of Nebraska's economic vitality. High taxes limit their growth and their ability to create new jobs.

Here is the reality we are facing. Over the past decade, median family incomes in Nebraska have declined. Food prices are up, health care costs are increasing and middle-class family take-home pay is down.

Here's the good news. You can help Nebraska families. The Nebraska Legislature can increase family take-home pay by lowering taxes. Middle-class families, farmers, ranchers and small business owners need our help.

I am going to fight for responsible and meaningful tax relief for Nebraskans and I hope you will, too. They are counting on us to help them. You and I both know taxes are one of the toughest and most difficult issues to resolve, but that's what leadership is all about – solving complex challenges.

Tax issues are multifaceted in Nebraska. Local governments decide property tax rates. State government sets income tax and sales tax rates. I appreciate the discussion that the Tax Modernization Committee had regarding taxes, but it's time for the Legislature to act.

We don't need more time to study this issue. We already know taxes are too high and high taxes are detrimental to economic growth. It's time for a straight forward conversation about property and income tax relief.

Nebraskans know that the Legislature does not set property tax rates. For example, the Kearney City Council decides Kearney's property tax rates, not Senator Hadley even though he is the Chair of the Revenue Committee.

The Lincoln Public School Board sets the property tax rates for LPS, not Senator Sullivan even though she is the Chair of the Education Committee. The Tri Basin NRD sets the property tax rates for their NRD, not Senator Carlson even though he is the Chair of the Natural Resources Committee. County boards, rural fire districts, community college boards, educational service units and other local government entities set property tax rates, not the Legislature.

When local government spending increases, property taxes go up. We need our partners in local governments to slow the rate of growth in local spending in order to achieve real property tax relief.

In rural Nebraska, record high property taxes are hurting our farmers and ranchers because they have experienced dramatic growth in ag land values. Without action, their economic prosperity is at risk. We can help our farmers and ranchers by supporting the Nebraska Farm Bureau proposal to lower ag land valuations from 75 percent to 65 percent.

That's one part of tax relief. The other challenge is Nebraska's high income taxes and the Nebraska Legislature sets those rates. Nebraska's income tax rates are among the highest in America and higher than all of our neighboring states except one.

Lowering Nebraska's income tax rates are essential to attracting higher paying jobs. Nebraska needs more middle-class jobs in the \$60,000 to \$120,000 a year category. Nebraskans don't want to leave, but to take care of their families they need good paying jobs.

Small businesses need lower income tax rates to help grow their businesses and increase jobs. Nebraska does a significant amount of work to attract new businesses through the Nebraska Advantage Program, but we need to do more to help existing businesses grow. The business community supports lowering income tax rates, and I agree with them.

The bottom line is this: taxes are too high in Nebraska and we can do something about it. We can help Nebraska's middle-class families, farmers, ranchers and small business owners this session.

Staying the course is not an option unless you support lower family incomes and more families on food stamps. We need higher paying jobs to reverse the decline in Nebraska's median family income. We need higher paying jobs to increase the state's population and growing jobs requires a more competitive tax environment.

When we talk about lowering the top individual income tax rate, some will argue that only benefits the wealthy in our state. That is not accurate.

If you are a single person in Nebraska with a taxable income of more than \$29,000 a year or a married couple earning \$58,000 a year, you are paying at Nebraska's highest income tax rate.

A middle-class Nebraska family with one spouse earning \$35,000 a year as a teacher and one spouse earning \$50,000 a year as a small business owner pays taxes at Nebraska's highest income tax rate.

If you are a Nebraska farmer earning \$25,000 a year and your spouse works for the University of Nebraska earning \$55,000 a year, this middle-class family also pays taxes at Nebraska's highest income tax rate.

Helping these hard working Nebraskans benefits our middle-class families.

Senator Hadley and members of the Revenue Committee, you can lower taxes on Nebraska's middle-class families, farmers, ranchers and small business owners. I am willing to work with you anytime, anywhere to develop a responsible and meaningful tax relief plan. Nebraska can afford tax relief.

Today, I am providing you two financial status reports that clearly show Nebraska can afford up to \$500 million in tax relief over the next three years, because Nebraska has a growing economy, a strong cash reserve and we have worked hard to control state spending.

I want to share with you one other important piece of financial information. The State of Nebraska has \$1.2 billion in cash in its checking and savings accounts. That's right. As I stand before you today, the State of Nebraska has \$1.2 billion in cash. Nebraska is over taxing its citizens right now, and we need to change that.

Our choices are clear. We can sit back, do nothing and put Nebraska's economic future at risk or we can act and secure a better tomorrow for Nebraska.

And while we are thinking of a better tomorrow, I want to recognize our military personnel and our veterans who work to preserve our freedom and our liberty. I am very proud of our veterans and the men and women serving in the Nebraska National Guard, the Reserves and our active duty forces. For their families and all Nebraska families, let's continue our hard work to make Nebraska an even better place to live, to work and to raise a family.

The choices we make today are about Nebraska's future. We must not mortgage Nebraska's future by expanding Obamacare's Medicaid program. We need to protect Nebraska citizens by reforming Nebraska's "good time" law. And we need to increase the take-home pay of Nebraskans by

providing them tax relief.

Thank you.

The committee escorted Governor Dave Heineman from the Chamber.

SENATOR MCGILL PRESIDING

NOTICE OF COMMITTEE HEARINGS

Revenue

Room 1524

Wednesday, January 22, 2014 1:30 p.m.

LB681

LB739

LB851

Wednesday, January 22, 2014 1:30 p.m.

Kim Conroy - Department of Revenue

(Signed) Galen Hadley, Chairperson

BILLS ON FIRST READING

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

LEGISLATIVE BILL 905. Introduced by Speaker Adams, 24; at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to amend Laws 2013, LB195, sections 18, 46, 47, 48, 67, 92, 93, 102, 103, 106, 107, 108, 142, 161, 203, 232, 236, 250, 261, 263, and 264; and Laws 2013, LB198, section 51; to define terms; to provide, change, and eliminate provisions relating to appropriations; to repeal the original sections; to outright repeal Laws 2013, LB195, section 95 and Laws 2013, LB583A, section 1; and to declare an emergency.

LEGISLATIVE BILL 906. Introduced by Speaker Adams, 24; at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to amend sections 2-3225 and 2-3226.05, Reissue Revised Statutes of Nebraska, and section 84-612, Revised Statutes Supplement, 2013; to transfer funds; to create and eliminate funds; to harmonize provisions; to repeal the original sections; to outright repeal sections 2-3226.06, 2-3226.07, 2-3226.08, and 2-3226.09, Reissue Revised Statutes of Nebraska; and to declare an emergency.