

repeal the original sections.

LEGISLATIVE BILL 326. Introduced by Kolowski, 31.

A BILL FOR AN ACT relating to revenue and taxation; to amend sections 77-3442 and 79-1022, Revised Statutes Cumulative Supplement, 2016; to provide and change levy authority for certain school districts as prescribed; to provide a duty for the State Department of Education; and to repeal the original sections.

MOTION - Escort Governor

Senator Kolterman 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 Brasch, Kuehn, McDonnell, Howard, and Kolterman to serve on said committee.

STATE OF THE STATE ADDRESS

"We are making government work for the people."

"As I travel the state, I hear almost universally from Nebraskans that they are taxed too much."

"We are controlling spending first. That is responsible budgeting and responsible tax relief—it's the Nebraska way."

"This isn't easy. It will require Nebraska grit."

President Foley, Speaker Scheer, Members of the 105th Legislature, Tribal Chairmen, Distinguished Guests, Friends, Fellow Nebraskans, and of course, our First Lady, my lovely wife Susanne - good morning!

Congratulations on the commencement of the 105th Nebraska Legislature. I want to thank each and every one of you for your willingness to serve our fellow citizens. I also want to highlight that you are beginning an historic year, the 150th year of our statehood which we will celebrate on March 1, our sesquicentennial.

I am honored to be here with you in the people's house. We all appreciate the tradition of our unique, non-partisan Unicameral. Nebraska consistently passes a balanced budget—on time—not all states can say that. In our system, every bill gets a hearing and every Senator gets a priority bill. Senators can have an impact with legislation, regardless of party or seniority. And debate happens right here on the floor, not in a closed door conference committee. Our Unicameral system empowers citizens with increased access to the process, greater transparency, and responsive representation.

Why do we have this system? We have it because of a man by the name of George Norris, who believed government should be more open and responsive to the people. A man who traveled 5,000 miles, wore out two sets of tires, sent 192,000 fliers—all at his own expense—to advocate for our Unicameral. George Norris was a man with a vision. He had initiative. He persevered. He was tenacious. He had grit—Nebraska grit.

That is a characteristic of our people. As a people, Nebraskans have a heart for their neighbor, a firmness of character, and they demonstrate resilience and fortitude. Nebraska is what America is supposed to be.

We are blessed to have so many everyday heroes in our communities, like the men and women who comprise Nebraska's law enforcement. They work hard and risk much to keep us safe. We are also grateful for our servicemen and women, the Nebraska National Guard, and their families.

Another great example of true Nebraska grit is Don Stratton who grew up in Red Cloud during the Great Depression. He was in the news about five weeks ago when we marked the 75th anniversary of Pearl Harbor.

On that fateful Sunday morning in 1941, a Japanese dive-bomber caused an explosion that engulfed the U.S.S. Arizona.

Stratton and his battery mates were trapped in a metal compartment being scorched alive. Finally, a serviceman on a repair ship tied to the Arizona, threw a rope to Stratton and his mates. With burns covering 65 percent of his body, he peeled loose skin from his arms to be able to climb hand-over-hand across 75 feet of rope, in excruciating pain and under fire from Japanese pilots while suspended 45 feet above flaming oil. Stratton made it.

And it is with the same spirit and determination that we must approach the work before us. Our families, our friends, and our neighbors are relying on us. What's more, we have a chance to give a voice to the voiceless, to improve lives, and to craft policies that build a brighter future for generations to come. I am excited to serve with each and every one of you to grow Nebraska.

Speaker Scheer, congratulations on your election. Thank you for your dedication and service to the people of Nebraska. I'm looking forward to working with you. And that goes for all of the new committee chairs. Thank you for your leadership.

And to the newly-elected Senators, congratulations. With farmers, small business people, attorneys, veterans, a firefighter, and a teacher, your diversity of experience will enrich the body and reflect our people. I look forward to what we will be able to accomplish working together.

In the 105th Nebraska Legislature, in our 150th year of statehood, you all are now part of our unique history. Your first legislative session presents an opportunity for decisive action that will shape the future of our state.

I am halfway through my four-year term of service as your Governor. This morning, I am going to highlight our accomplishments, discuss our legislative efforts to Grow Nebraska, address this year's budget adjustments, and detail my plan for the next biennium. I will also share with you my plans to deliver much-needed tax relief to hardworking families.

By identifying our mission to create opportunity through more effective, more efficient, and more customer-focused state government, we have made progress toward our vision of growing Nebraska. We are making government work for the people.

This thinking is contagious:

The Department of Environmental Quality launched online applications for storm water permits and new general air construction permits, significantly reducing wait times.

Health and Human Services, once under special investigation, is now accomplishing their mission of helping people live better lives. For example, ACCESSNebraska has reduced average call wait times, improved SNAP application processing, and in doing so saved the state \$17 million.

In our Department of Labor, we launched a first-in-the-nation reemployment program to help job seekers connect with good-paying jobs faster, and it is now saving Nebraska businesses \$17.6 million in taxes.

There are more efficiencies we can bring to government. Earlier this week, Chairman John Murante and I announced a merger of our Division of Veterans Homes with the Nebraska Department of Veterans Affairs. We will eliminate red tape for our veterans and can provide streamlined services to them under one roof. Thank you Director John Hilgert and your team for all your diligent work to make this possible and continually improve services for our veterans.

Chairman Curt Friesen and I are also working to merge the Department of Roads and the Department of Aeronautics into the Department of Transportation. Among other things, these efficiencies will allow us to put more money into runways and roads without sacrificing jobs. Thanks to Aeronautics Director Ronnie Mitchell and Roads Director Kyle Schneeweis for all their work on this merger.

I also want to recognize my entire cabinet, who is with us in the gallery today. This dedicated bunch is working to transform the culture of state government and deliver better services at a lower cost. Thank you all for everything you do to serve the people of Nebraska.

I know that unnecessary regulations hamper job growth. This year, we need to continue to get rid of unnecessary regulations to empower everyone from car sales people, barbers, and cosmetologists to audiologists and massage therapists. We're going to help people who want to work in these professions get to work more quickly. Thank you to Senators Albrecht, Craighead, Geist, Erdman, Larson, Lindstrom, Lowe, and Riepe for introducing bills to cut red tape.

With initiatives like these, we have built a strong foundation in state government. The state of our state is strong.

Now, we also know we have challenges. Farm income has gone from \$7.5 billion just a few years ago, to \$4.5 billion in 2015 and probably close to \$4 billion last year.

As a result, we face reduced tax receipts. Our revenues were \$95 million below forecast in our last fiscal year and the forecasting board cut another \$172 million for the current fiscal year. The next biennium will require continued expense control.

As Nebraskans, we don't spend money we don't have. We balance our budgets. At the state level, we have maintained a healthy cash reserve and set spending priorities like education, public safety, and infrastructure. This commonsense approach has put us in a financial position where even a budget challenge like this one can be managed.

In a year where we have to make difficult budget decisions, we have to favor the taxpayer. Special interests have the ability to hire lobbyists to achieve their desired ends. As elected officials, we have a duty to be advocates for citizens and a voice of the people.

This is an opportunity for us to put our Nebraska grit to work like Don Stratton. Let's roll up our sleeves and do what needs to be done to chart a course for future prosperity.

Our first task is to adjust the current year budget to bring it to balance.

As I have said, it is easy to view a government budget as a collection of numbers in rows and columns next to agencies and programs, but behind the numbers are people's lives. The dollars that fund our budgets are dollars earned by hardworking Nebraskans. Additionally, our agencies and programs are designed to serve our citizens—and many of them are people in need.

With this in mind, I worked with my agencies and my budget office to prepare budget reductions, which I presented to you last week.

My proposal provides more resources for Child and Family Services, invests in education, protects reforms in Corrections, and balances the budget without raising taxes.

I will not support any effort to raise taxes on Nebraskans. As Ronald Reagan said, "Simple fairness dictates that government must not raise taxes on families that are struggling to pay their bills."

I urge you to take up this budget by the first week of February because there are less than six months left in this fiscal year. It is critical to finish this budget to lay the foundation for the next budget. I appreciate the work of Chairman John Stinner and all of the members of the Appropriations Committee on this effort.

Today, I present to you my recommendation on the upcoming biennium. Four principles guided my budget recommendations.

First, the revenue gap must be addressed without increasing taxes. Raiding the property tax credit relief fund, raising sales taxes, and taxing food and groceries would all harm Nebraska families and be bad for our economy.

Second, the budget must be balanced.

Third, we must reduce government expenditures.

Fourth, we targeted keeping around \$500 million in the cash reserve, so we are in good position to address future uncertainty.

Having said that, there are certain priorities we must continue to fund. That is why we propose an increase in funding for K-12 education. I know education is an investment in our children and our future. When most areas of the state budget are essentially flat, I am proposing a 2.7 percent average annual increase to K-12 education. That's a 5.4 percent increase for the biennium. I also recommend an additional three percent biennial increase in special education funding. This is significantly more than the overall state budget is growing and is responsible within our resources.

Now, you will be lobbied that this budget "doesn't fully fund education." That is not true. That statement is based upon a flawed school aid formula that encourages spending. The formula allows schools to grow their budgets 12 percent.

What I have proposed is responsible. It respects the taxpayer and prioritizes K-12 education with a significant increase, amounting to an historic high of over a billion dollars per year in general fund support.

Another priority is the Department of Corrections. Together, we made significant progress in an agency that had been neglected for years.

In addition to providing for the basic needs of more than 5,300 inmates, Corrections successfully launched an automated sentence calculation program, implemented the first-ever risks/needs assessment tool, reformed restrictive housing, completed a culture study and staffing analysis, expanded mental health and cognitive behavioral programming, created mission specific housing, and developed an inmate health plan while addressing pay and quality of life issues for Corrections officers.

With this budget proposal, we will reduce protective services vacancy rates, upgrade technology, and improve the Lincoln Correctional Center.

I want to thank Director Frakes and the members of his team, who are with us today. They put themselves in harm's way to keep us safe, and they have worked together to transform the culture of the agency. Please join me in thanking them.

We began work on this budget last June to right size appropriations with historical spending. Our recommendations are thoughtful and reflect the input of my agencies. These are reductions that can be made without affecting operations.

In the end, our first fiscal year increase is 1.5 percent followed by a 1.9 percent increase in the next fiscal year for a two-year average of a 1.7 percent increase in spending. This is in line with my current year recommendation.

As I travel the state, I hear almost universally from Nebraskans that they are taxed too much. So I am proposing both property and income tax reform.

Property taxes are too high, especially for our agricultural producers. Between 2003 and 2013, property taxes on farmers and ranchers rose by 137 percent.

As cattle and crop prices decline, it is important assessments drop as well. Taxes should correlate with income.

We have to think bold. We have to think long-term.

This year we have a chance to achieve lasting, fair, and structural property tax reform by changing the way we value ag land.

The Agricultural Valuation Fairness Act, sponsored by Ag Committee Chairwoman Lydia Brasch, changes the methodology for assessing property value from a market-based system to an income-potential assessment. Income potential is a much fairer measure, and will slow the growth of ag land valuation increases. If this system were in place for 2017, it would reduce ag land valuations by about \$2.2 billion.

Income potential based property tax assessment for ag land is used in North Dakota, South Dakota, Kansas, Iowa, Wisconsin, Illinois, Indiana, and Ohio. This method is much fairer and standard across ag states, which is why many Nebraska ag producers have suggested it to me.

We would implement this change beginning in 2019 to give local taxing entities and county assessors plenty of time to prepare.

In the past, Nebraska attempted to get property tax relief by putting more money into TEEOSA, the school aid formula. That has proven to be a failed policy. Historically, additional aid without spending restraint has only resulted in additional spending and higher property taxes.

Finally, I want to talk about reducing income taxes.

When it comes to the income tax, they get a reminder on the 1st and the 15th of every month when they get their paychecks.

It's not just Lincoln reaching into their pockets, it's Washington, D.C.

We can't control what happens in Washington, but we can here in Lincoln.

Let me tell you, our people get frustrated when they hear us talk about finding "revenues," "new resources," and "rebalancing." They know those are code words for raising their taxes!

The way to grow revenues is to grow the number of people who live here and create more and better paying jobs. To do that we have to be more competitive.

Only one of our bordering states has a higher income tax rate than Nebraska—that's Iowa. Wyoming and South Dakota have no income tax, and Colorado, Kansas, and Missouri all have lower rates. Our high tax rate hampers our ability to grow our economy over the long-term. It discourages new investment and chases away great people. If we want to outpace other Midwestern states, we have to be competitive on taxes.

Do you know it's been 20 years since middle class Nebraskans saw a cut in the income tax rates?

The hardworking people of Nebraska deserve better than for their elected officials to treat cutting income tax rates as a once-in-a-generation event!

Partnering with Revenue Chairman Jim Smith, we propose to take the top income tax rate down roughly one-tenth of one percent per year, starting in 2020, as long as our revenue growth exceeds 3.5 percent. In effect, we will have a trigger when we hit 3.5 percent growth to take that income tax rate from 6.84 percent down a little each year until it's under six percent. If our

revenue doesn't grow fast enough, the tax rate doesn't come down. It's that simple.

Now, I want to take a minute to address the top income bracket in Nebraska. In a world of hyper-political rhetoric, people are quick to say a reduction of the top income tax bracket is a "tax break for the rich."

Any single individual making \$29,831 is caught in the highest tax bracket. Folks, \$29,831 is not rich. It is middle class. Married couples making \$59,661 are also caught in that tax bracket, and that's more than half of them.

Nebraskans look at us and wonder why it's so hard for us to let them keep more of their money.

The only way to have sustainable tax relief is to control spending. Any opportunity for tax relief is fundamentally the difference between spending restraint and revenue growth.

Controlling spending must come first.

Detractors of this tax relief will point to states that reduced taxes before reducing spending and then struggled to catch up. That's not how we do things here. We are controlling spending first. That is responsible budgeting and responsible tax relief—it's the Nebraska way.

Join me in helping middle class working families. Let's spur economic growth and make Nebraska more attractive to businesses and families looking to relocate. Let's do it the Nebraska way. The reductions we make to the budget to balance it, and continued attention to controlling spending will allow us to cut taxes and grow Nebraska.

This isn't easy. It will require Nebraska grit.

Speaking of grit, there is one other thing I didn't tell you about Don Stratton. After several months of surgeries and rehabilitation at Naval Hospitals, he was sent home to his parents in Red Cloud. Then after several more months of recuperating, Stratton reenlisted. That's right. He reenlisted.

He had to convince the draft board in Omaha to take him back in the service. They made him go through boot camp again to make sure he was physically up to it. He made it and went back to the Pacific Theater.

He was assigned to a destroyer where he protected U.S. Marines in the invasion of Okinawa. After 82 days of brutal combat, the U.S. forces took Okinawa. Don Stratton, nearly fatally injured in the first American battle of World War II played an important role in one of the last battles of the war.

Don Stratton finished the war. Now, it is our job to finish the work in front of us. With determination, we can address our challenges and position our state for future long-term growth. We can balance the budget, set spending priorities, deliver essential services, all without raising taxes on Nebraska families. And by controlling spending, we can set ourselves up for future tax relief.

That's the Nebraska way.

Folks, this is our opportunity to demonstrate what a little Nebraska grit and a free economy have to offer. The sky is the limit. I look forward to working with each of you to keep Nebraska the best place in the world to live, work, and raise a family.

God bless you all for your work, God bless America, and God bless the great state of Nebraska. Thank you.

The committee escorted Governor Pete Ricketts from the Chamber.

BILLS ON FIRST READING

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

LEGISLATIVE BILL 327. Introduced by Speaker Scheer, 19; at the request of the Governor.

A BILL FOR AN ACT relating to appropriations; to state intent; to define terms; to make appropriations for the expenses of Nebraska State Government for the biennium ending June 30, 2019; to transfer funds; to provide duties; to provide an operative date; and to declare an emergency.

LEGISLATIVE BILL 328. Introduced by Speaker Scheer, 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 FY2017-18 and FY2018-19; to provide an operative date; and to declare an emergency.

LEGISLATIVE BILL 329. Introduced by Speaker Scheer, 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 FY2017-18 and FY2018-19; to define terms; to provide an operative date; and to declare an emergency.