

MOTION - Suspend Rules

Mrs. Bohlke moved to suspend the rules, Rule 3, Section 13, to allow cancellation of the scheduled hearing for LB 541.

The Bohlke motion to suspend the rules prevailed with 40 ayes, 0 nays, 8 present and not voting, and 1 excused and not voting.

MOTION - Escort Governor

Mr. Kristensen 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 Messrs. Brashear, Engel, Dierks, Mmes. Crosby, and C. Peterson to serve on said committee.

STATE OF THE STATE ADDRESS

Mr. President, Mr. Speaker, Members of the Legislature, distinguished guests and friends.

This morning I come before you to deliver my first State of the State address.

This is my opportunity to share how I intend to implement my vision, a vision which I believe is shared by Nebraskans, a vision of less government, lower taxes, protecting our families, and building our economy.

Today, I ask for your help in implementing this vision.

Together we can get this done. Together we must get this done.

The budget I propose today is based on three principles.

The first is spending restraint. My budget recommendations limit State spending to a growth rate of 2.2 percent for fiscal year 2000 and 3.4 percent for fiscal year 2001. In addition to the customary 3% required reserve, the plan proposes to maintain a 3% cash reserve as a hedge against an uncertain future. I am also breaking with gubernatorial tradition by recommending a growth rate for the following biennium of not more than 3%. In my judgement, these are achievable targets.

The second principle my budget recommendation addresses is the increased commitment, within our limited resources, of providing services that ensure a continued quality of life for our citizens. The spending targets I have proposed are achievable without sacrificing our shared priorities or walking away from our responsibilities to Nebraskans.

The third principle is tax relief. Spending restraint and a growing economy will enable us to provide significant tax relief to Nebraska taxpayers. Along with this budget I am recommending a permanent mechanism for providing property tax relief so that tax savings produced through greater efficiencies of government and excess tax receipts generated from a growing economy will be reserved for direct property tax relief and not used for continued growth of state government spending.

Let me outline some key elements of my budget recommendations.

My commitment to protecting Nebraska families is demonstrated by the priority I've placed upon effective law enforcement because safe communities are strong communities. Last week I announced a resolution to a two-year labor contract impasse with the State Troopers which had resulted in no pay increases since 1997 and created severe recruitment, retention, and morale problems within the Nebraska State Patrol. I'm very pleased that the dispute has been resolved and that a new contract has been reached. This settlement and the new wage contract are included in my budget plan.

My predecessor also reached a formal agreement with the public employee unions to establish increased hiring rates for nearly 700 Correctional Officers, Corporals, and Sergeants beginning January First of this year. In addition, current employee salaries were increased at the Department of Corrections to solve recruitment and retention problems. These items are included in my budget plan.

My budget also includes funds for initial staffing and operating costs at the new prison in Tecumseh and the incarceration work camp in McCook.

And in accordance with a program adopted by the Legislature in 1998, I have included funds to reimburse counties for the cost of incarcerating State prisoners. Today I ask county governments to return this savings to taxpayers in the form of dollar for dollar property tax relief.

The number of families requiring public assistance has been declining, reflecting the strong economy and Nebraska's commitment to welfare reform. As a result, my budget is reduced \$1.7 million dollars in this area over two years. But funding is included to cover the costs of increased utilization of child care services for low-income working families to eliminate a major barrier to their ability to be self sufficient.

My budget recognizes the need for adequate health care for Nebraskans with particular needs.

In recognition of Nebraska's positive economic status, the federal match rate for Medicaid was reduced for the coming year. General Funds of \$9.4 million are included in this budget to offset that federal reduction. In addition, funding for two very important programs, Medicaid and Long-term Care, has been increased \$35.3 million to cover added utilization and medical

inflation.

I've added funding for community-based services for juveniles. This will provide attention closer to home, so that families and communities can be actively involved in the rehabilitation of youthful offenders. The additional services will give further assurance of public safety and will help alleviate pressure at the youth centers at Kearney and Geneva, allowing longer-term treatment for more serious offenders.

This budget also adds more than \$7.2 million dollars in General Funds to continue necessary mental health services at the Regional Centers, and commits an additional \$2.4 million to further develop community-based services for the mentally ill.

Regional Center care will still be provided for those who require such care; but increasingly, outpatient care should be available to promote a more independent lifestyle for persons with mental illness.

In addition, \$5.2 million in General Funds and \$6 million in Federal funds are included over the biennium to increase rates for private providers of services for the developmentally disabled. The adjusted rates will allow service providers to raise salaries for their employees by increasing rates to 92.5% and 95% of the established reimbursement methodology over the biennium.

I continue our commitment to senior citizens.

General funds are added to provide additional service coordination for elderly persons facing long-term care decisions. Information and assessment will be provided to enable the elderly to find care services that will preserve their independence as long as possible. And funds have been added to provide additional in-home and community-based services for the elderly.

My budget recommendations also include reaffirmations of capital construction projects currently underway totaling almost \$72.3 million of General Funds in the coming biennium.

They include the Incarceration Work Camp and the Medium/Maximum Security Prison, the completion of the Information Science, Technology and Engineering project at UNO, the State Capitol masonry project, the Grand Island Law Enforcement Training Center renovation project, and the continuation of \$5.9 million per year of funding for the renovation of buildings at the University of Nebraska and State Colleges.

I also propose an aggressive, yet critical state highway and interstate construction program of \$280 million in FY2000 and \$294 million in FY2001. A well-maintained transportation system is critical to commerce and tourism in Nebraska and I am pleased to propose a continuation of our commitment in this area with no increase in the gas tax.

My budget recommendation for the Department of Water Resources includes nearly \$8.5 million General Funds to continue Platte River water rights litigation with the State of Wyoming and to prepare for a suit filed by the State of Kansas concerning the use of Republican River water. We will vigorously defend Nebraska's water rights. From the Platte River to the Missouri, the Niobrara River to the Ogallala Aquifer, Lake McConaughy to the Harlan County Reservoir, and the Republican River itself, water is a precious resource for irrigators, environmental interests, and public utilities. Protection of our water rights is critical to the future our State.

Another important area of investment in this budget is education.

My budget recommendation includes a continued commitment to funding the University of Nebraska and our State Colleges. A total of \$42.7 million in new General Fund dollars have been added for the coming biennium.

Included is a commitment to higher education on the Peru State College campus. First, is the reaffirmation of second year funding for the Hoyt Science Building project of almost \$1.8 million. Second, is the reaffirmation of the second year miscellaneous renovations funding of \$200,000. Third, is \$240,000 to replace or renovate the Water System. Fourth, is \$115,000 to continue planning through design development for the Library renovation and possible addition.

LB 269, passed two years ago, included a reduction in levy limits for Community Colleges from the current 7 cents to 6 cents per \$100 of valuation. I have included \$6.7 million in fiscal year 2001 to help replace property tax revenue lost from the limitation reduction. This budget also includes increased funding for student financial aid to maintain the current number of scholarships in programs administered by the Coordinating Commission for Postsecondary Education.

On the subject of higher education, Speaker Kristensen has stirred the debate regarding the future structure of the governance of higher education in Nebraska. I applaud him for initiating this dialogue and look forward to being a part of that conversation.

The budget also includes increased funding of \$1.1 million Cash Funds for each of the next two years for grants from the Cultural Preservation Endowment trust fund to provide stable, long-term support for the arts and humanities in Nebraska.

My recommendation for special education maintains the growth rate at the statutory limit of no more than 3% per year resulting in increases of \$3.9 million in the first biennium and another \$3.9 million in the second biennium to reimburse schools for special education expenses.

My budget also proposes to eliminate a seven-tenths of one percent contribution to the School Retirement System, which has been paid in since

1984. Let me be clear however, my willingness to eliminate this amount is dependent on placing sole responsibility for this program, including benefit amounts, with those who benefit from the program. If this cannot be achieved, I will support continued state funding.

Before moving on to two critical elements of my budget package, I want to reiterate that my budget is limited to 2.2% growth the first year and 3.4% growth the second year. I have proposed limited increases in spending while funding our priorities.

Now let me focus on State Aid to Education and Property Tax Relief.

Any discussion of state aid should begin with my respect and admiration for the members of the Unicameral for having taken on these difficult issues. Against great criticism you moved Nebraska in the right direction. You have increased the State's aggregate share of the cost of K-12 education from about 25% a decade or so ago to about 50% today. And against criticism at home you have challenged school boards and administrators to tighten their belts, set priorities, work together, and, in some instances, caused communities to make tough, yet inevitable decisions regarding their schools, that have been put off for decades.

You have done this while working to honor the concept that local school districts, through their elected boards are best equipped to decide what's in the best interests of the children and families they serve.

I applaud you.

However, with all that you have accomplished, we would be less than candid if we did not acknowledge that a couple of areas still demand our attention for debate, deliberation, and our action.

Our State's school finance formula is complicated. Frankly, to accomplish the public policy objectives that should be accomplished it has to be complex. But just because the formula is complex shouldn't mean it has to lack stability and predictability.

Recently, a group of school officials came to talk to me. Before they left my office I asked them, if they could choose between increased state aid or predictability in the formula's outcomes, what would be their preference. Their answer was predictability.

That should be our goal.

Accordingly, we must agree to improve stability and move away from annual changes to the mechanics of the formula which serve to make the system even less predictable.

The second thought I offer in the area of school finance, is that I believe there

is a better way to fund property tax relief than increasing state aid to local school districts.

We were all disappointed by the property tax figures recently released. The hope was that your efforts, coupled with efforts by local elected officials, would have resulted in property tax relief of about 8% to 15%. The reality is that property tax relief statewide was less than 5%, and for many Nebraskans either significantly less than that or none at all.

Following all of the hard work of the Legislature in recent years to boost aid to local governments in the hope of reducing the property tax burden, the average property tax payer in Nebraska did not see nearly the amount of relief the Legislature hoped to provide.

Attempting to provide property tax relief through state aid to local governments is simply not an effective method of providing property tax relief. Higher valuations and the bureaucracy of local government eat up many of the dollars that this Legislature had hoped would provide property tax relief.

Therefore, today I respectfully submit to you a plan. The plan I propose recognizes the state's responsibility for funding K-12 education and for providing property tax relief.

We do not have to leave our schools without the necessary resources to educate our children. A unified package of legislation that maintains spending at the levels I have suggested, stabilizes state aid, provides direct property tax relief, and includes Senator Brown's legislation on the school levy remaining at \$1.10, and therefore assisting local school districts meet their local needs, will receive my support.

By accepting my proposal and adopting the Direct Relief to Property Taxpayers Act which I propose today, we can give Nebraska real property tax payers a nearly dollar for dollar reduction in property taxes and preserve an element of local control over our schools.

The plan I give to you today creates a trust fund for direct property tax relief. Every property tax payer will benefit. Here's how it is funded:

Excess state tax receipts and savings through government efficiencies would be transferred to the Direct Relief to Property Taxpayers Trust Fund. The fund would be established with transfers from the Cash Reserve Fund, Securities Act Cash Fund, and Insurance Cash Fund totaling more than \$150 million dollars in FY1999 and FY2000. An estimated \$125 million dollars would be available for the Fund in 2001 and 2002 through additional State spending restraint and growth in Nebraska's economy.

Taxpayers who own real property on December 31st of 1999 will be the first property tax payers eligible for direct property tax relief. They will have until

January 31st of 2000 to apply for their direct property tax relief check. On or before August 31st of 2000, the State Property Tax Administrator will certify the amount of funds available for relief payments in the Direct Relief to Property Taxpayers Fund. The Property Tax Administrator will have until December 31st of 2000 to issue a direct property tax relief check to the property taxpayer.

Our estimates indicate property taxpayers will receive a check equal to an estimated 11% of their real property taxes in the first year of this program.

About 24% of this relief or \$36 million dollars will go directly to farmers and ranchers in direct proportion to the amount of real property tax they pay. More than 55% or about \$72 million dollars will go to Nebraska's homeowners and nearly 20% or \$30 million dollars will benefit commercial and industrial property tax payers including small businesses, an important part of our economy.

There will be no more debate on whether the state has given property tax relief. The direct refund to the property tax payer solves this problem.

And valuation increases will be automatically accounted for because the refund will be in direct proportion to the amount of property tax paid.

Our challenge is to limit state spending consistently to about 3% annually. If we do and our economy can continue to grow, at least \$400 million will go back into our local economies in the next 3 years alone. And that \$400 million will mean more money in the pockets of Nebraskans to spend how they see fit.

But a word of caution . . . with this plan each decision you make on more spending will directly reduce what is available for property tax relief. If we keep spending at or below my proposed spending targets in this biennium and the 3% target established for the following biennium we can fund our priorities, meet the State's responsibilities and provide direct property tax relief.

My tax relief package also includes an expanded homestead exemption to keep property taxes from being a burden on persons with fixed incomes or limited means. Senator Raikes has introduced this proposal which would increase the limitations on the value of the homestead, the income limitations of eligible taxpayers, and the amount of the exemption itself.

The third part of my tax relief plan is an adoption tax credit introduced by Senator Matzke. Consistent with my strong belief that children should have stable and loving families, I am proposing a \$1,000 per year refundable tax credit for families who adopt a child. As introduced, the credit may be claimed each year of the child's life up through the year the child turns six years of age. I look forward to working with you to enact an incentive for building strong families.

I look forward to working with you on the passage of this three-part tax relief package. And I also look forward to signing into law the anti-crime initiatives I have co-endorsed with our Attorney General. I thank Senators Bromm, Bruning, Chris Peterson, and Senator Crosby who have sponsored these important initiatives to assist in providing law enforcement and prosecutors with additional legal tools for keeping our communities and our families safe from the threat of crime.

Finally, over the past several weeks and months I have expressed my concern about the serious challenges facing our Ag economy. I will advocate in Washington for federal policies that assist our farmers and ranchers and I will advocate abroad to open markets for our products. But it is here in Nebraska where we can have the greatest impact by reducing costly and burdensome regulation and working to provide direct property tax relief. That's what our farmers and ranchers consistently have asked us for and we have the opportunity to do that with the Direct Property Tax Relief Act.

Almost three weeks ago I stood before you humbled by the great honor that had been placed upon me to become Nebraska's 38th Governor.

Today, I feel the urgency to move this agenda forward with each of you as a partner.

This morning I have laid out the details of a budget that funds our shared priorities while proposing to return \$400 million dollars in direct property tax relief to Nebraska real property tax payers over the next four years. And most importantly, our priorities are funded and tax relief achieved within the limitation of 2.2% spending growth the first year and 3.4% the second year.

I look forward to working with you for passage of a budget that meets these reasonable spending targets, action on my proposals related to school finance, passage of anti-crime initiatives that will further punish those who violate our laws, and approval of the Direct Relief to Property Taxpayers Act.

I close with a quote from General John J. Pershing from a letter written to French Army commander Marshall Foch during World War I, "there is an abiding confidence between our people that insures to the world our constant friendship and our common purpose in behalf of humanity."

I'm confident that we can work together to accomplish our common purpose on behalf of Nebraskans.

The Committee escorted Governor Mike Johanns from the Chamber.

EASE

The Legislature was at ease from 10:29 a.m. until 11:01 a.m.

SPEAKER KRISTENSEN PRESIDING