

Governor Dave Heineman

State of the State Address

January 13, 2011

102nd Legislature

First Session

“Today I am submitting a bold, innovative and strategic two-year budget and a four-year vision to make Nebraska the ideal place to create jobs and grow a business, the best place to obtain an education for students of all ages, and the perfect place to raise a family.”

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

I am honored and pleased to have the opportunity to continue as the 39th Governor of the best state in the United States of America.

Today I am submitting a bold, innovative and strategic two-year budget and a four-year vision to make Nebraska the ideal place to create jobs and grow a business, the best place to obtain an education for students of all ages, and the perfect place to raise a family.

Our state is in a position to make these goals a reality because of what we have accomplished together during the past several years.

We've made tough decisions. We have harnessed technology to offer useful, customer-driven online services to our citizens and businesses. Most importantly, we've made fundamental investments in education and the economic vitality of our state and as a result Nebraska has made significant progress.

Who would have imagined a decade ago that one of America's most well-known technology companies would complete a data center and customer service center in the Omaha area last year and would be moving to double its presence?

Who would have imagined a decade ago that one of Denmark's leading biotechnology companies would select Nebraska as the home of its ethanol enzyme research facility in Blair? Who would have imagined a decade ago that a Nebraska small business would have installed an all fiber network in western Nebraska?

Who would have imagined a decade ago the new opportunities Nebraska companies would have when the state opened its first ever international trade office in Japan? Who would have imagined a decade ago that an outdated State Fair could be successfully relocated to a state of the art facility in Grand Island?

Who would have imagined a decade ago that as America faced a gripping economic slowdown, Nebraska would emerge as a state with one of the lowest foreclosure rates, the third lowest unemployment rate and a destination for companies looking to expand and create jobs?

Several important decisions have put Nebraska in this enviable position.

Working together we modernized our economic incentives through the creation of The Nebraska Advantage and this incredibly successful effort has helped 245 companies decide to expand or locate in Nebraska during the past five years. These companies are planning to invest \$5.5 billion in our economy and create more than 18,500 new jobs.

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 as a hedge against the slowing national economy. We worked together to control the growth of state spending and to pass balanced budgets without raising taxes. We did this in spite of the fact that revenues in fiscal years 2009 and 2010 were less than fiscal year 2008. Now Nebraska is in better shape than most of America.

Together we built a strong foundation for the future because we didn't spend money we didn't have and while three-fourths of the states have raised taxes since 2008, Nebraska has not.

The budget that I am submitting today capitalizes on our positive momentum and sets the stage for a prosperous decade.

We will invest in Nebraska's future by focusing on economic growth and jobs. We will invest in Nebraska's young people by prioritizing education and by focusing on education accountability.

Economic success and education success are linked together. We need both. We are focused on creating higher paying jobs and developing a more highly educated work force. We want our graduates and young professionals to be prepared for high-quality, high-skill jobs with dynamic companies doing business right here in Nebraska.

In preparing for our future, the Nebraska Department of Economic Development conducted a review of Nebraska's economic standing. The resulting Battelle study was a thorough assessment of Nebraska's competitive advantages that suggested strategies for growing new and innovative jobs, industries and talent.

The study revealed that Nebraska has succeeded in developing an unusually diverse economy and a number of industries are ideally positioned for new growth. Twelve industries have a strong presence in Nebraska with additional potential to grow, including: agriculture and food processing, financial services, biosciences, computer and software services, renewable energy, transportation, warehousing and logistics, research and development and engineering services, health services, business management and administrative services, hospitality and tourism, precision metals manufacturing and agricultural machinery.

The Battelle study provided recommendations on how to strengthen support for the companies that make up our fastest growing sectors and the people they employ. Another report prepared by your Innovation and Entrepreneurial Task Force, chaired by Senator Conrad, outlined the need to improve Nebraska's entrepreneurial environment. Many of the recommendations in your legislative report are similar to the Battelle study.

It is critical that we invest in economic growth and jobs. That's why I am pleased to announce today the Talent and Innovation Initiative, a four-part plan designed to enhance our economic momentum.

First, I am proposing a Nebraska Internship Program to increase the number of college and university students interning with Nebraska businesses. This \$1.5 million training program will be funded by redirecting resources from the Nebraska Job Training Cash Fund and matched by funds from the private sector.

Second, I am proposing the creation of the Business Innovation Act to leverage entrepreneurship, to increase private sector research and innovation, and to expand small business outreach efforts. This \$7 million program would be funded by redirecting resources within the Department of Economic Development and new general funds.

Third, I am proposing the creation of a new Site and Building Development Fund to increase the number of sites and buildings available for business development projects. This fund is needed now in order to continue Nebraska's economic growth. This \$3 million fund would be created by redirecting resources from the Nebraska Affordable Housing Trust Fund.

Fourth, I am proposing a \$5 million Angel Investment Tax Credit Program to foster high-tech startups in Nebraska. The Angel Investment Tax Credit Program is key to increasing the number of higher paying jobs in our state.

These investments in economic growth would be combined with two new education initiatives.

First, my budget recommendations support the Department of Education, the University of Nebraska and Nebraska's P-16 Initiative in their joint efforts to develop a virtual high school. A rigorous online high school curriculum offers important opportunities to rural Nebraska and urban areas alike. The \$8.5 million initiative will be funded from lottery funds.

A virtual high school would allow Nebraska high school students to take courses ranging from basic Spanish classes to advanced placement courses. In rural Nebraska, it can be difficult to hire foreign language, math and science teachers. A virtual high school would allow rural schools and rural communities the opportunity to survive. Online courses allow students to complete course work on their timetable in the evenings or on weekends. A virtual high school is a way to expand learning beyond the traditional school day and school year.

My second education proposal is a one-time \$25 million investment in the University of Nebraska's Innovation Campus. This proposal would jump start and accelerate the development of Innovation Campus.

The University of Nebraska is a critical component to our state's economic future. With its pending move to the Big Ten, the University of Nebraska has an outstanding opportunity to significantly increase student enrollment, expand its rapidly growing research base and develop public-private partnerships at Innovation Campus that will increase job opportunities for Nebraskans. This bold investment is needed now, not five years from now.

Additionally, I am very supportive of Senator Ashford's efforts to reduce truancy. Last year, 22,000 Nebraska students missed more than 20 days of school, and students can't learn if they are not in school. For example, Commissioner of Education Roger Breed has informed me that students who miss more than 20 days of school score approximately 30 points less on the reading assessment. Many schools would see a significant increase in reading scores if truancy were reduced.

Even though Nebraska has a nearly \$1 billion projected shortfall, our two-year budget prioritizes education.

State funded state aid to education in FY12 remains at \$810 million and increases by \$50 million to \$860 million in FY13. I am not proposing any reduction in higher education funding for the University of Nebraska, our state colleges and Nebraska's community colleges.

In order to prioritize education and economic growth, my budget proposal significantly reduces funding for many agencies and eliminates several programs. Many of the proposals in your LR542 report have been included in my budget recommendations. The decisions were difficult but necessary. We are facing unprecedented financial challenges. The national economy is recovering slowly and many are predicting a jobless recovery. I have tried to minimize the reductions by transferring \$260 million from the cash reserve, and using cash transfers of \$68 million and re-appropriations of \$15.5 million.

This budget is about priorities and making difficult decisions about the most important responsibilities of state government. I've listened to our citizens and their priorities are creating jobs, improving the economy and strengthening education. This budget reflects those priorities.

It will be easy for lobbyists and special interest groups to criticize individual components of this budget but in this challenging financial environment, their criticism will lack credibility unless they are willing to offer an alternative budget proposal for the State of Nebraska.

You and I have to pass a balanced budget. If special interests want to be critical, then they need to present their own plan. If they want to spend more on Medicaid, then the question is do they want to reduce education funding or raise taxes? If they want to spend more on state aid to education, do they want to cut Medicaid provider rates further or raise taxes?

These are the challenges and tradeoffs we face in developing a budget.

And on the issue of taxes, I want to be very clear. I am opposed to any income, sales, alcohol, cigarette or gas tax increases. I fully fund the Property Tax Credit Program and I will oppose any attempt to reduce funding for this program that provides direct property tax relief to homeowners and businesses.

For the final minutes of my State of the State address, I want to focus on my vision for the next four years. We have an extraordinary opportunity to reshape the economic, education and family landscape of Nebraska.

We've made exceptional progress during the past few years but we have more work to do. I have high expectations for our state and for what we can do for our citizens.

For example, our efforts to lower taxes three years ago and our determined resolve not to raise them the past three years has resulted in a more competitive business environment and improved rankings in the annual Tax Foundation survey.

In 2006, Nebraska's business climate was ranked 45th of 50 states. We were one of the top 10 highest taxed states in America. Today Nebraska is 29th. We have improved our ranking more than any other state except one.

During the next four years, we need to reform our income tax system so that middle class families and small business owners don't pay at the same marginal rate as Nebraska's richest citizen. We need to lower corporate tax rates. Lowering taxes will create more job opportunities for our citizens.

To improve the state's financial strength, we need structural balance in the state budget.

We need to restore the cash reserve to previous levels so that we are prepared to weather future shortfalls.

We need to resolve the state's roads infrastructure funding challenges.

To strengthen families, we need to improve Nebraska's child welfare system. Nebraska continues to have one of the nation's highest rates of out-of-home placements. That is unacceptable. We need to reform the failed policies of the past.

Just as Health and Human Services had to change the culture at the Beatrice State Developmental Center and work with private providers to develop community based services for individuals with developmental disabilities, Health and Human Services must make similar changes to improve the child welfare system for the benefit of children and their families. The goal is more in-home services, less out-of-home care, and a permanent, loving family for every child.

One of our most important future challenges is education accountability.

We have good schools in our state but as good as they are we must do even better in the future. Thanks to the leadership of the Legislature, Nebraska is moving to statewide reading and math assessments. The recently announced reading results are the benchmark for comparing future results. The focus is on demonstrating student and school academic achievement and student and school academic growth.

While poverty and diversity are challenges for our schools, I would note that two high schools with a high free and reduced lunch percentage, Gering and Crete, scored significantly higher than other high schools with less poverty and less diversity.

Nebraska's P-16 Initiative is committed and determined to strengthen Nebraska's education system. Senator Adams, thank you for your leadership as a Co-Chair of the P-16 Initiative.

One of the goals of the P-16 Initiative is to eliminate academic achievement gaps. This is a very important goal because every child deserves a quality education. The best opportunity to reduce poverty and to provide every young person hope is a good education.

I want to quote from a recent issue of Education Next and an article entitled “An Effective Teacher in Every Classroom.” The article stated, “An analysis of data from Los Angeles found that the impact of individual teachers is so great that providing top-quartile teachers rather than bottom-quartile teachers for four years in a row would be enough to completely close the achievement gap between white and African American students.”

I want to conclude by praising the extraordinary commitment and dedication of the men and women serving in the Nebraska National Guard. In 2011, one-third of the Nebraska National Guard will be deployed to Iraq, Afghanistan and other places throughout the world defending our freedoms and our liberties, many for a second or third time. As their Commander in Chief and a veteran, I am very proud of these men and women.

Ladies and gentlemen, governing requires making tough decisions and I am committed to tackling the challenges that lie ahead.

We have worked together to put Nebraska in a strong financial position and I have every confidence that by continuing to work together we can put Nebraska in an even stronger financial position in the years ahead.

Thank you.