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Appropriations Committee
November 09, 2009

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The Committee on Appropriations met at 9:15 a.m. on Monday, November 9, 2009, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on agency budgets. Senators present: Lavon Heidemann, Chairperson; John Harms, Vice Chairperson; Danielle Conrad; Tony Fulton; Tom Hansen; Heath Mello; John Nelson; Jeremy Nordquist; and John Wightman. Senators absent: None.

SENATOR HEIDEMANN: I think we're going to go ahead and get started. We still are working up on the floor, some of our members are still up there, but it looks like we have enough here to go ahead and get started. So we're going to start with some self-introductions and I'll fill in where the holes are at. We're going to start over on our right. []

SENATOR NORDQUIST: Senator Jeremy Nordquist from District 7, downtown in south Omaha. []

SENATOR HANSEN: I'm Tom Hansen, District 42, Lincoln County, the "French Riviera" of the Sandhills. []

SENATOR CONRAD: Danielle Conrad, north Lincoln "Fighting 46" Legislative District. []

SENATOR HEIDEMANN: Then we have Senator John Wightman. He's from Lexington. Kathy Tenopir is our fiscal analyst. My name is Lavon Heidemann, District 1, southeast Nebraska, Chair of the Appropriations Committee. []

SENATOR HARMS: I'm John Harms, represent the 48th District, Scottsbluff, Nebraska.
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SENATOR NELSON: I'm John Nelson, District 6 in central Omaha. []

SENATOR HEIDEMANN: Then we have Senator Tony Fulton from Lincoln. []

SENATOR MELLO: Health Mello, District 5, south Omaha and Bellevue. []

SENATOR HEIDEMANN: Our committee clerk is Anne Fargen. Over there our page for the day is Stephen. If you have anything to hand out, eventually give it to him and he'll distribute it to the rest of the committee. At this time we'd like to remind you, if you have cell phones, to please shut them off so they don't disrupt us later on. Testifier sheets are on the table or near the back doors. We ask that you fill these out completely and put them in the box on the table when you testify. At the beginning of the testimony please state and spell your name for the transcribers that will follow us. That sure helps us out. If you forget to do this, we're going to remind you. Nontestifier sheets near the back doors, if you do not want to testify but would like to record your support or opposition, you only have to fill this out if you will not be publicly testifying. If you have printed materials to distribute, please give them to the page at the beginning of your testimony. We need 12 copies. We ask, in the matter of time, to please keep your testimony precise and on topic, under five minutes would be appreciated. With that, we're going to go on to some instructions that we normally don't do but we are in special session. We're hearing over 70...having over 70 public hearings over a four-day span. We normally do that in almost a month, month and a half in regular session. Because of that, we got to kind of scrunch things down. We're using something that we normally don't do and that's the light system that you're going to see before you. Depending on how much time we give you, you're going to see the green light. When you see the yellow light, when you see the yellow light you have one minute. You see the red light, we ask that you would just kind of wrap it up. For bills, the principal introducer, or the agencies, you'll have up to about 10 minutes before you're going to see the yellow light come on. All other testifiers, depending on how many is out there, we're probably going to take a show of hands before...after the principal introducer gets done and say, you

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know, if we have more people that want to testify on this agency, if there's five or six or seven, we're going to cut you down to maybe a couple of minutes. If there's only one or two, you might get four or five. We'll just play that by ear. I will ask for a hand count, usually, depending if I see there's going to be one or more people that want to testify on the agency. And I think that's everything there. And with that, if I can find my right piece of paper, we are going to open up the public hearing on Agency 47, Nebraska Educational Telecommunications Commission. []

ROD BATES: (Exhibit 1) Thank you, Senator Heidemann. I'm Rod Bates, R-o-d B-a-t-e-s. Senator Heidemann and members of the Appropriations Committee, as the secretary of the Nebraska Educational Telecommunications Commission and the general manager of NET, I'm testifying today on behalf of Agency 47. NET is a statewide public radio and television network, but it also provides a number of educational and technological services to the citizens of Nebraska. I think it's important to begin by recognizing the significance of the support the state of Nebraska has provided to NET since its inception back in 1954. This year marks the 55th anniversary of providing programs and services to the people of Nebraska, to the country and beyond. And virtually every administration and every legislative body has supported this service generously. For that we're grateful. Based on our audience research, we estimate today that there are over a million people that watch NET television at least once a week, and another 100,000 listen to public radio. Hundreds of thousands of teachers and students have benefitted from our educational services. And there's a one-page document entitled "NET Impacts Nebraska" that I provided at the end of the testimony. I won't read that. It's just for your information. We understand the seriousness of this special session and share the Governor's belief that this must be a shared sacrifice. Please understand that I also have an obligation, as a steward of this enterprise, to share with you the negative impact the proposed budget reductions will have on our operation as I suggest modifications to the Governor's proposed action. Ten years ago now the NET Commission requested \$30 million from the state to replace the satellite transponder that we used to distribute our radio and television

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signals to our 9 transmitters and 14 translators across the state. The state supported that request. Not long after that, NET received work from the Federal Communications Commission mandating a change in broadcast technology from analog to digital. Once again, we went to the state and asked them to fund an estimated cost of the transition at an additional \$30 million. The state also supported that request. Then consultants advised us that it would be imprudent to invest that large amount of money in equipment unless we repaired the air handling in our building, so once again we came back to the state and they supported our request for \$13 million. The following year, state tax receipts fell sharply and there were discussions not dissimilar from this special session. My fear was that the state would rescind the money appropriated for the federally mandated conversion to digital. But I was told the state considered that an investment in the future but a reduction in our annual operations would be necessary. For the next four years, beginning in 2001, NET went through serious financial challenges. It wasn't just the state reductions but reductions in support from the University of Nebraska, a drop in multimedia sales, contracted services, production grants, and charitable donations. In that four-year period, NET reduced its annual operating budget by \$8.4 million. It affected all departments and resulted in the elimination of many valued programs that serve the educational community and the citizens of the state. Over 100 positions were eliminated, including 62 layoffs of state and university employees, and a copy documenting the reductions is provided to you as Attachment 2. Today I'm pleased to tell you that the payments on the bonds for the building renovation were completed this last year resulting in savings to the state of \$1.7 million a year. In February of 2009, NET completed the digital conversion and shut down our analog service, resulting in an estimated savings in utility cost to the state of Nebraska of \$300,000 per year. In January 2010, this upcoming year, NET will have paid the obligations on the bonds for the digital conversion, saving the state an additional \$2.85 million a year. At the same time, January of 2010, we will have paid off the bonds for the satellite transponders, saving the state an additional \$2.85 million. Altogether, that's \$7.7 million that will no longer be required in the annual NET appropriation. This is a remarkable achievement and we're enormously grateful to the state for their support. NET is now positioned

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better than ever before to provide extraordinary opportunities in programs and services that were never possible before. They can be offered better, faster, and less expensively than ever. It will be possible for us to use digital technology to provide programs when you want them, where you want them, and on any device you choose. With this good news, it was my hope to ask the Legislature in the next biennium to take a small portion of the savings I described and reinvest in NET to restore some of the previous reductions in our operating expenses and develop the potential that this new technology offers. Now with this special session, we're no longer looking at small increases in funding but further reductions. The NET Commission is also a partner with the University of Nebraska Television and, therefore, we will likely see even more reductions in university support. So with that as background, I'd like to suggest the following modifications of the Governor's recommendations. First of all, with regard to the carryover funds, agencies were encouraged to tighten their belts last year. We were told that we'd be authorized to carryover funds in anticipation of a challenging economic forecast. The Governor has recommended capturing \$180,827 of the television funds. NET has obligated the majority of the carryover funds already. The funds were used for accrued expenses, accounts payable, and purchase orders for equipment replacement. The paperwork and purchase orders were processed and the payment was not due until the equipment was delivered in this fiscal year. All but \$35,000 of the carryover is currently committed. If the Governor's proposal stands, we will be taking more fiscal '10 funds to pay for fiscal '09 purchases, increasing the size of our reduction. Number two, the same holds true for radio. We have a serious problem with aging radio transmission equipment. The transmitters are reaching the end of their useful life. Our focus in the last ten years has been on the technological transition of television. Now we're facing aging equipment in radio. We have been slowly and incrementally upgrading these aging transmitters, antennae and lines, radio sites across the state. We've accomplished this using federal matching grant money from the Public Telecommunications and Facilities Program. We've submitted grants with the idea that we would use carryover money for the match in federal funds. The Governor has proposed capturing \$72,163 of those funds. If that happens, we will again realize a

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double cut, since we would have to use fiscal '10 funds and lose federal funding in this cycle. Number three, with regard to rescission and reductions, the proposed 2.5 percent rescission in fiscal '09 and the proposed 5 percent reduction in fiscal '10 funds will result in reductions in force as well as programs and services. Many of the programs and services that would be under consideration for cutting or reducing you've seen before on our modification list. They include the potential for reverting back to a reduction in the number of hours of our broadcast day, cutting programs that we either acquire or the number of local programs that we're able to produce, engineering and maintenance support. If we have outages, it could take longer to restore services. We had hoped to build a Web IT project, which includes the streaming service from the State Capitol, to begin archiving hearings from the Appellate and Supreme Courts as well as audio transcriptions of the Legislature. We would not have the resources to our expand our capability, let along sustain the existing services. Fourth, the last time I addressed you, I had mentioned the challenge we will be facing very soon. In the analog technology world, depreciation and replacement of equipment could take 10 to 20 years. In a digital environment, it will be accelerated exponentially. Just consider the comparison of an analog typewriter compared to a digital word processor. You once could buy a typewriter and its useful life could be ten years or more. A work processor on a computer needs continual software upgrades and the hardware is replaced routinely every three to five years. Our entire operation is now digital and some of the equipment we have purchased, it was eight years ago. It's already reaching the end of its useful life. Fifth, public broadcasting in the United States was built on an incentive basis, so rather than funding public broadcasting nationally, the federal government provides an incentive to local stations by granting more federal money for each federal dollar raised in support of local programs and services. To put it simply, every dollar we raise locally in private donations or state support, we receive approximately 9 cents on every dollar from the federal government. Under the Governor's proposal, estimate losing \$1 million in the next two years, and that will mean the potential loss of another \$90,000 in federal support. There's never been a more important time for public media service Nebraskans can trust. Last year, for the sixth consecutive year in a row, a national Roper poll

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showed that the American public rated PBS the most trustworthy institution among nationally known organizations. This comes at a time when we're seeing local newspapers across the country go out of business. We're seeing commercial radio and television stations merging or being acquired and programmed from afar. NET is one of the few remaining locally owned and operated media enterprises that produce programming for and about Nebraska. Further reductions in our operations will put this at risk. Over 25,000 families voluntarily support NET annually. We have recently launched a campaign to increase annual operating revenues from tax-deductible contributions and to build a \$10 million permanently restricted endowment, the interest earnings of which will help compensate for these frequent fluctuations in funding to ensure that future generations will have this valuable resource. I've said this before and I will say it again, the state of Nebraska has one of the finest public broadcasting media and technology systems in the country. Together we've invested heavily in this system in the last decade. It's my strong belief that we not squander that investment by hampering our ability to take full advantage of its capabilities by reducing our annual operating budget. I want to close by saying how much I appreciate the difficult position you're in. I realize and accept the fact that we're all in this together and NET will do whatever is required to preserve the programs and services we offer to the citizens of Nebraska. But I also feel a strong sense of stewardship for those we serve and it's in that spirit that I offer this testimony. Thank you, and there's no lights on, Senator Heidemann. I made this well within my ten-minute limit. I'll be happy to answer any questions. [AGENCY 47]

SENATOR HEIDEMANN: Thank you. Are there any questions? You did such a good job. Also... [AGENCY 47]

SENATOR NORDQUIST: Sorry, yeah. [AGENCY 47]

SENATOR HEIDEMANN: You got one, okay. [AGENCY 47]

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SENATOR NORDQUIST: Two quick ones: First, on the streaming, so you're saying there would not be enough funding to sustain streaming of committee hearings?
[AGENCY 47]

ROD BATES: No, I think we can still...I'm sorry if I misled you. I think we can still continue to do that. It was very inexpensive to set up that up and it doesn't require a lot of manpower to do it. But to add the addition of archiving the state, the Supreme Court and the Appellate, as well as audio transcripts, is additional expense... [AGENCY 47]

SENATOR NORDQUIST: Okay. [AGENCY 47]

ROD BATES: ...and so that's at risk. [AGENCY 47]

SENATOR NORDQUIST: Okay. And then just as far as programming, how often do you guys do a review of programming that you have and looking at, you know, ratings, and how often do you look at what you're putting out? [AGENCY 47]

ROD BATES: We don't have what Nielsen calls overnights... [AGENCY 47]

SENATOR NORDQUIST: Yeah, sure. [AGENCY 47]

ROD BATES: ...which means we can't measure it on a daily basis. We don't have...but we did have a grant from the Corporation for Public Broadcasting to take our larger DMAs--Omaha and Lincoln, Kearney and Grand Island, Hastings--and extrapolate that to calculate how many people in nonmeasured areas are watching or listening, and we do that on a regular basis. That happens quite frequently. And at least once a year we have a researcher that does a deep dive into that research to see how many people are watching, looking over the Nielsen research. [AGENCY 47]

SENATOR NORDQUIST: Okay. Thank you. [AGENCY 47]

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SENATOR HEIDEMANN: Senator Hansen. [AGENCY 47]

SENATOR HANSEN: Thank you. Mr. Bates, it's good to have you here this morning.
[AGENCY 47]

ROD BATES: Thank you. [AGENCY 47]

SENATOR HANSEN: I drive a General Motor pickup with an XM SIRIUS Radio. That is something that came along a lot after you started ETV and ET Radio also. There's things that have changed in the communications. You mentioned that newspapers are going out of business regularly because of the Internet and now they can be read on-line where the daily paper is not a common thing anymore. In western Nebraska, we don't get this. There is no state paper. We have no Omaha World-Herald anymore, can't be delivered. Things have changed. And I remember when the ETV came on and it was only for a short period of time, and the broadcast days got longer and longer, and the radio the same way. Would at least a temporary cutback in services...I mean you list that as one of your potentials. Is that probably the place you'll have to go, which means layoffs, which means...I don't know if the equipment will last...make it last any longer if you're off the air but... [AGENCY 47]

ROD BATES: I think one way to look at this, this oversimplified, is the state funding, by and large, not completely but by and large, takes care of the technical infrastructure to get this out across the state. So with state funding cuts, you will likely see a reduction in maintenance and the infrastructure costs. Programs and services, if we went off an hour early, like we did the other time we went through the budget cuts, we'll save in some utility costs but it's pretty negligible. When we shut analog off, that's a \$300,000 savings per year because we were broadcasting in both analog and digital. That's substantial. But cutting an hour out is minimal. It's...actually, it's probably most disruptive in the 3rd District because of the time zone change, so that was a problem. When the budget

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improved a little bit, the economy improved, we restored that. But we'll probably look at that again as one means of making some cuts. We have one vacancy right now and we anticipate that in six to nine months we could see as many as, how many more, two or three more, but we don't know that, nor can we ask people about that. But we anticipate there might be as many as two or three more vacancies, so we would look to that. But if you don't refill those positions and you have a transmitter go out in one of the rural areas, it could take time, longer time for an engineer to get out there to do the replacement. That's where you'll see some disruption. [AGENCY 47]

SENATOR HANSEN: Do the 25,000 people that contribute then pay for the programming if the state dollars are used for engineering? [AGENCY 47]

ROD BATES: Exactly. [AGENCY 47]

SENATOR HANSEN: Okay. Thank you very much. [AGENCY 47]

ROD BATES: Now we do use some...the way this all started is in the fifties it was the University of Nebraska Television Department. In the sixties, when we created the state network, there was a memorandum of understanding signed between the university and this state commission to say the university would share the content and the state would share the infrastructure to extend the service to everyone across the state. So that's kind of how it operates. [AGENCY 47]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 47]

SENATOR MELLO: Thank you, Mr. Chairman. And thank you, Mr. Bates, for your testimony. Did you have any conversations at all with the Governor or the Governor's Budget Office in regards to their specific cut to public radio? [AGENCY 47]

ROD BATES: No. There just hasn't been much time. I mean we have good

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communication with the Governor's Office, but I think this moved very quickly, and so no. [AGENCY 47]

SENATOR MELLO: Okay. What would be impacted with those cuts to specifically public radio? [AGENCY 47]

ROD BATES: As I said in my testimony, a lot of the antennas and the lines feeding FM transmitters are now reaching the end of their useful life. It's usually about 18...I think they're 18 years old and about...we're starting to see failures. So what we've done is we've captured some of that money to match with the federal competitive grant program to replace some of those transmitters. We were doing it in ones and twos, and I think we're...we've got about three of the transmitter sites upgraded, and we had applied, using that money, for additional transmitters to continue to do this incrementally. We'll lose that. That's the impact of the \$72,000. [AGENCY 47]

SENATOR MELLO: If we took that \$72,000 reappropriation cut, how much...how longer down the path or I guess what would be the time line for transitioning this equipment then if we took the funding away and you lost the federal funds for that as well? [AGENCY 47]

ROD BATES: Be hard to estimate. That federal fund is also under scrutiny, as you might suspect, at the federal level. It's always vulnerable. There have been several attempts to eliminate that competitive fund altogether. They have saved it. So there's at least an outside chance, I think, that we could lose that federal matching grant program. Then you add to that if you can tell me how quickly the economy is going to turn around and we can get additional money to do the transmitters, then I could answer your question. But absent that, I don't know when we'll get this done now. [AGENCY 47]

SENATOR MELLO: Okay. [AGENCY 47]

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ROD BATES: We've been doing it. It's not nearly as expensive as that digital conversion and we've been...and because it's not federally mandated, we've been managing on our own one transmitter at a time. [AGENCY 47]

SENATOR MELLO: So that specific cut would be almost a double cut. Would that be fair to say? [AGENCY 47]

ROD BATES: Clearly. [AGENCY 47]

SENATOR MELLO: Clearly. [AGENCY 47]

ROD BATES: It's absolutely fair to say. [AGENCY 47]

SENATOR MELLO: Okay. [AGENCY 47]

ROD BATES: We will lose that. We'll have to take it out of our budget. And we're going to lose this grant round of PTFP funding. Is that a fair statement? [AGENCY 47]

(UNKNOWN MALE): (Inaudible) we already have a grant (inaudible). [AGENCY 47]

SENATOR HEIDEMANN: Senator Fulton. Senator Nelson. [AGENCY 47]

SENATOR NELSON: Thank you, Senator Heidemann. Thank you, Mr. Bates. Is your objection mainly to the lapse of reappropriations, the money that you thought that you would have? [AGENCY 47]

ROD BATES: That's... [AGENCY 47]

SENATOR NELSON: Do you feel your able to absorb the across-the-board cuts that the Governor recommends? [AGENCY 47]

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ROD BATES: Well, I think we're...I don't like that but, yes, I think we will do what we have to do. The part that most concerns me is the carryover. I think that's no question. It's going to hit us twice because we've already obligated that money, so we have to do it, and we'll have to take it out of this year's budget in addition to the 2.5 percent. So that's the big one. [AGENCY 47]

SENATOR NELSON: Thank you. [AGENCY 47]

SENATOR HEIDEMANN: Senator Nordquist. [AGENCY 47]

SENATOR NORDQUIST: Have you seen an impact on your private donations with the downturn in the economy? [AGENCY 47]

ROD BATES: You know, it's amazing. We just finished a public radio drive that set an all-time record. [AGENCY 47]

SENATOR NORDQUIST: Uh-huh. Okay. Great. [AGENCY 47]

ROD BATES: So it's going well. We just went public announcing this campaign for a permanently restricted endowment. We've got about half the money raised from private donations. That worries me because of the economy but, frankly, it has been astounding to me how generous Nebraskans are and I think they...this is a personal opinion, but I think they realize this is very serious and if they want to continue this service they've got to step it up, and they are. [AGENCY 47]

SENATOR NORDQUIST: Uh-huh. Uh-huh. If we look at... [AGENCY 47]

ROD BATES: Now our television fund-raising I think was down about 8 percent last year. [AGENCY 47]

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SENATOR NORDQUIST: Okay. If we were to look at, in a given year, your operations in a pie chart, what would be the private, state, (inaudible). [AGENCY 47]

ROD BATES: Funny you should ask. [AGENCY 47]

SENATOR NORDQUIST: Okay. (Laugh) Great. Thank you. [AGENCY 47]

ROD BATES: I've got more of those annual reports. I just didn't give them to you. There's a pie chart at the back. [AGENCY 47]

SENATOR NORDQUIST: Great. Thanks. [AGENCY 47]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 47]

SENATOR WIGHTMAN: Thank you, Mr. Chairman. Thank you, Mr. Bates. But my question...the last question of Senator Nordquist covered what I was going to ask, so. [AGENCY 47]

ROD BATES: If more of you want that, I brought a few annual reports with me and I can get them to all of you that have the funding mix. [AGENCY 47]

SENATOR HEIDEMANN: We can get a copy eventually passed around to everybody if they so desire. [AGENCY 47]

ROD BATES: All right. I brought a number with me. [AGENCY 47]

SENATOR HEIDEMANN: Seeing no further questions, thank you for coming in today. [AGENCY 47]

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ROD BATES: Thank you. [AGENCY 47]

SENATOR HEIDEMANN: Is there anyone else wishing to testify on Agency 47? Seeing no one, we will close the public hearing on Agency 47 and open up the public hearing on Agency 51, the University of Nebraska. Welcome. [AGENCY 47]

J.B. MILLIKEN: Morning, Mr. Chairman, members of the committee. My name is J.B. Milliken. I'm the president of the University of Nebraska. Originally, I had approached this hearing with some trepidation until Saturday evening. Now I think Messrs. Suh, O'Hanlon, Dillard, and Amukamara helped give everybody in Nebraska a bit of a lift in their step and I hope there's some hangover this morning with this committee. I'm here to ask you today to continue your support of higher education in this state and of the University of Nebraska. The priority you've placed on funding for all levels of education is important for our state and deeply appreciated by all of us whose mission it is to serve Nebraska and improve its competitiveness in the global economy and it's a major reason the university is in a strong position today to contribute to a successful economic recovery. We understand that the current economic situation in Nebraska is difficult. We know that people are suffering as jobs are lost, companies are closed, and retirement and savings accounts shrink. Almost everyone in the state and certainly everyone who relies on financial support from the state of Nebraska has had to tighten their belts, and that includes the university, and we acknowledge that additional sacrifice will be required from us, as well as others. We also know that when the economy suffers, many people look to higher education as a way to improve their situation. It's one reason, I believe, that we had continued enrollment growth this fall with the highest enrollment at the university since 1996. It's why almost 10,000 of our students are pursuing graduate degrees this year, an increase of 5 percent over last year. We know that in a recession, higher education students tend to stay closer to home, and we've seen that reflected in an increase, a disproportionate increase, in residents attending the University of Nebraska this year. And we also see graduate enrollments go up in a time of recession, and we have seen that as well as individuals seek to retool and improve their skills in a

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difficult economy. In fact, at the University of Nebraska at Kearney we had over a 12 percent increase this year in graduate enrollments. These students understand that a college degree is key to their personal earning power and a better quality of life for themselves, their families, and their communities, and you all know that an educated work force is a key to helping the state emerge from this downturn. There are some indications, including a report last week from a leading economic forecasting firm, that Nebraska is one of the few states already beginning to recover. I believe that the university can play an important role in strengthening our economy. Last spring, the Legislature approved a 1.5 percent increase in the state's appropriation to the university for the biennium. You also approved funding for a new College of Nursing division in Norfolk, and passed LB603 to expand behavioral health training programs in Nebraska. These additional funds added approximately \$1.9 million for nursing and \$2.9 million for behavioral health over the biennium. The university has pledged to be part of the solution to the state's fiscal shortfall. Because of budgetary obligations, primarily salaries and other related benefits, we have already made permanent budget reductions this year of approximately \$8.5 million, which includes the elimination of 103 positions, vacant and filled. We were prepared to do that because starting last December we asked employees throughout the university to work with us to limit expenditures, to reduce operating expenses, to carefully consider any additional hires at the university, and to put off any purchases that were not necessary. Now we have not yet had an opportunity to fully analyze what a \$26 million reduction would mean. That's the biennium reduction included in the Governor's budget recommendation. We will operate differently, obviously, for the reductions required in a year that we're halfway through, as opposed to the second year of the biennium where we'll have time to plan with our campuses for permanent changes in our budget. We do know that a reduction of that size would permanently affect jobs on our campuses and across the state in academic and outreach programs. It could mean a reduced presence in greater Nebraska. It would affect our ability to address state's priorities. It could have an effect on the momentum that we've seen in the last five years, including an impressive growth in research last year, a 20 percent increase over the previous year. But we are especially

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concerned about any impact that budget cuts might have on affordable access to a high quality education, which is our promise to Nebraska, is our highest priority. As this committee knows, there has historically been a direct relationship between state appropriations and tuitions. Historically, when appropriations have gone down, tuition has gone up, in some cases, earlier in this decade, substantially. When state support is stable, then we've been able to meet our goal of having moderate, predictable increases in tuition. This year we had a 4 percent tuition increase despite a smaller increase in our state appropriation. At that time, the Board of Regents acknowledged that that pattern was not sustainable. But we are not considering additional tuition increases, additional burden on our students in a midyear tuition increase, as some states are planning, including our neighbors to the east. But over the long term, stable state funding is essential to maintaining affordability at the university. This fall I joined the Governor and other education leaders in announcing new education goals for the state of Nebraska, which included ensuring affordable access to higher education, increasing high school graduation rates, being among the top ten states in the country in college going, and improving our retention and graduation rates. These are ambitious but they are thoughtful and attainable and important goals for the state of Nebraska, and we will depend on your continued support to be able to achieve this goal. I urge you to continue what you have done to make education, including higher education, a priority for the state of Nebraska. We pledge to work with you during these challenging times, to continue to maintain programs that are important to the citizens of Nebraska. I would be happy to respond to any questions. Thank you. [AGENCY 51]

SENATOR HEIDEMANN: Thanks, J.B. I've got a couple. I just...you had mentioned it was a \$26 million cut to the university. In that, I believe you've included the \$10 million which will come from another source but will be just a one-time hit because it's in the first year and it doesn't actually cut it out in the second year. Is that correct the way you understand it? [AGENCY 51]

J.B. MILLIKEN: Yeah, I didn't include that in my calculation because, as I understand it,

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that's a one-year cut in our budget but a replacement with funds for the one year and it doesn't represent a permanent reduction. Now perhaps I misadded but...but I think the \$26 million is what happens if you reduce us over the biennium to the 2009 base year. [AGENCY 51]

SENATOR HEIDEMANN: You are correct. A couple things maybe I want you to comment on more than a question: What we're seeing here in Nebraska and what we're having to do in this special session is something that neither I nor you probably would prefer. But when you look out across the country, that things that have happened to higher education, whether it be in California, Washington, Oregon, Nevada, Florida, they've been fairly severe. And even though what we're dealing with here isn't good, I think we're still a whole lot better off than a lot of other places. The other thing I want you to comment on, last year in the Legislature we put on...I hate to say it in this terminology but almost an additional obligation that the University of Nebraska is going to have to deal with, and that is Norfolk and behavioral health, and now we're coming back to you and we're going to cut your budget. And I was kind of wanting you to comment on how you're going to deal. [AGENCY 51]

J.B. MILLIKEN: Okay. Well, thank you, Mr. Chairman. I'd respond to both of those points. And the first one, you are right, state budgets in other states where their economies have been considerably more harshly impacted than Nebraska--Florida, California, Nevada, North Carolina, even Iowa, Missouri, Kansas--we have...we've seen deeper cuts in state government as a whole and we have seen deeper reductions to those universities that are peer institutions of ours. So we understand that higher education is part of the solution nationwide and will be here, and we're grateful that the state of Nebraska has to date done better than most of these other states and that has allowed the university to continue to make important investments, to grow our enrollment, to grow our research, continue to increase the quality of students that are coming in, in terms of attracting the best and the brightest from Nebraska. On the second point, I mentioned briefly in my testimony that this committee did increase, sort

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of I guess I'd call it an overall increase, of 1.5 percent, but also added specific funding to support a priority of ours, an additional nursing program, the fifth one in the state in northeast Nebraska, which after the Medical Center studied this learned that that was the state with the most severe gap between supply and demand of nurses. So you put in additional funding for that, about \$400,000 in this year and \$1.5 million next year. You also addressed behavioral health needs in Omaha, added about \$2.9 million, I think, over the biennium in the A bill for LB603, and that's important work that will be done by the University of Nebraska Medical Center. But those were two additional specific items that were added to our budget. [AGENCY 51]

SENATOR HEIDEMANN: Okay. Thank you. I appreciate the comments. I also want to state publicly that I appreciate the working relationship that I have with you, and I've heard it from you more than once that you realize that the state is in tough times and that you want to be part of a solution, and in tough times I appreciate people that come to me with solutions versus problems. So thank you. Senator Harms. [AGENCY 51]

SENATOR HARMS: Thank you, Mr. Chairman. Thank you very much for your testimony. First, I'd like to just say that I am very pleased with what I've been able to see that the university does across this great state. In just about every phase of our economy it has a major impact. I guess probably where I really got my eyes opened up is when you were so gracious and kind to allow some of your staff to participate in our planning for the state, and what they are bringing to the table is very much appreciated because you've saved us a phenomenal amount of money in regard to doing that. Just a couple questions I'd like to ask: The \$26 million that we're going to lose, what impact do you believe that would have with our students? I mean that's really what we're about. What impact will it have in regard to services and counseling and testing or just in general in the classroom? [AGENCY 51]

J.B. MILLIKEN: Well, you know, I knew you were going to ask this question... [AGENCY 51]

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SENATOR HARMS: Okay. [AGENCY 51]

J.B. MILLIKEN: ...or that someone was, but it is, in fact, too early to say. The way this would split out is I guess a little less than \$9 million of reductions this year, and we'll be halfway through this year when we know what the target is, what our funding is. So we will make temporary adjustments to the budget. We've already begun to work on that, as you can imagine. But ultimately, a \$26 million is about a 5...a little over 5 percent permanent reduction in our budget, in our General Fund budget, so we will work. I meet with the chancellors again this week. We will work on planning, even before we get the answer, on what will happen next year to cut 5 percent out of our budget. Our highest priority will be first to preserve access to the university. We've had some important gains with Collegebound Nebraska. We have over 6,000 students attending the university this year who are able to attend, in part at least, because of that guarantee of not paying tuition at the University of Nebraska. We will continue to invest in financial aid and we'll continue to try to keep the university as affordable as we can. That's the first commitment. Obviously, we will try to protect academic programs to the extent we can. When we get to an excess of a 5 percent reduction, it is unlikely that that's something that can be managed across the board and still preserve the quality of the programs at the university. So we will be looking hard at whether there are particular programs that will need to be eliminated with that size of a reduction. [AGENCY 51]

SENATOR HARMS: In regard to the University of Nebraska Medical Center, till I probably got on the Appropriations Committee I really didn't truly understand how important it is to this great state and this region. They just do some phenomenal work there. And having a chance to meet some of the young researchers that they're attracting and where we're beginning to move in regard to being ranked in some categories as the top in the nation, will this have any type of negative impact in regard to that aspect as far as services and education, training and research? [AGENCY 51]

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J.B. MILLIKEN: Obviously, we will try to protect, to the extent possible, those priorities within the university, those programs that we've identified, the research programs, teaching that are critical to the state. But it's difficult for me to paint a picture where a 5 percent reduction in the General Fund doesn't have an impact on the university, and a significant one, and so I can't do that. The impact will be probably most significantly felt at those campuses that are going to have additional state-aided budget expenditures required, and in this case that would be UNK and UNO, in particular. [AGENCY 51]

SENATOR HARMS: One final question and then I'll leave you alone. Will this have any kind of an impact in regard to our Innovative Campus? Because I think that...and I've said this on the floor and I continue to say it, it's the only shining light that I see in Nebraska that gives us an opportunity and a chance to move into the new world global economy by what you're doing there. I've been a great supporter of that. What will that do in this process for that? Because I think that as we look in the future for this economy, you have to be successful there because I think it's going to have a positive impact. [AGENCY 51]

J.B. MILLIKEN: Well, thank you, Senator. I think the Innovation Campus is a truly exciting opportunity for this state and I would suggest that, as you alluded to earlier, there are a number of other truly exciting opportunities for this state. Take the proposed cancer campus at the Medical Center, the Ak-Sar-Ben Village development, the new College of Business right near the Peter Kiewit Institute which now has a new strategic plan, new emphasis on research, which is I think going to contribute to the innovation economy in the same way that Innovation Campus does. I suppose the greatest impact this session has on Innovation Campus is that we were seriously considering a deficit request to help support some infrastructure funding at the Innovation Campus and so that was the first casualty of this process. I don't think it will have a direct effect on our plans for Innovation Campus. We are going to be actively engaged in raising private funds too. I wish the state were in a position now to help with the infrastructure in particular and for the public aspect of that project, absolutely, and we will at a future

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opportunity want to have discussions with this committee. [AGENCY 51]

SENATOR HARMS: Thank you. Thank you, Mr. Chairman. [AGENCY 51]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 51]

SENATOR MELLO: Thank you, Mr. Chairman. And thank you, President Milliken, for your testimony. Only two questions: One, looking to the long term, knowing the growing need for higher education in our state as well as the dwindling resources our state has seen, do you think there would be any potential cost savings if we looked to consolidate the State College System within the University of Nebraska system? [AGENCY 51]

J.B. MILLIKEN: If I could, thank you for your question, Senator, and I assume you'll ask my college behind me at his opportunity to testify today as well. [AGENCY 51]

SENATOR MELLO: Yes. [AGENCY 51]

J.B. MILLIKEN: If you could, first of all, phrase the question, if we were to consolidate these--and I don't know that it would be into the University of Nebraska, I'm not...I don't...I wouldn't presume what the structure would be--is there an opportunity for savings? Sure, I think there probably is. I mean I think there are probably competing issues and that you all would have to decide, and the rest of the Legislature at some point, but there are probably opportunities for savings. I recall a few years ago there was a bill proposed that would consolidate the boards of the Board of Regents, the State College Board, and the Coordinating Commission, and I suspect there was some work done at that point to determine whether or not there were savings involved with that. But I think there probably would be. [AGENCY 51]

SENATOR MELLO: Okay. Thank you for that. I will ask the Coordinating Commission and the state colleges the same question, so you're not...just not targeting you right

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now, President Milliken. One last question: Last year the state of Nebraska received roughly \$1.7 billion in funding from the American Recovery and Reinvestment Act. I believe, if my memory is correct, that Department of Corrections received \$52 million in the General State Stabilization Funds. Are you aware of the university, through any of the funding that we...that the Governor and/or the Legislature approved through last year's budget, did the university receive any of those stimulus dollars? [AGENCY 51]

J.B. MILLIKEN: I'm not...we did not receive any immediately as a result of the budget passed by the Legislature, is my understanding. We are eligible and working with the State Energy Office on funds that were made available there. [AGENCY 51]

SENATOR MELLO: Uh-huh. Uh-huh. [AGENCY 51]

J.B. MILLIKEN: We clearly are seeking and have received some research funding federally that have been provided through the stimulus, but it's my understanding we did not receive any of that, I can't remember how that was characterized,... [AGENCY 51]

SENATOR MELLO: Stabilization? [AGENCY 51]

J.B. MILLIKEN: ...the stabilization funds or the education funds because of the formula at that time. [AGENCY 51]

SENATOR MELLO: Uh-huh. Okay. [AGENCY 51]

J.B. MILLIKEN: I would suggest that we are benefitting in this process from the stimulus funds... [AGENCY 51]

SENATOR MELLO: Okay. Thank you. [AGENCY 51]

J.B. MILLIKEN: ...indirectly. [AGENCY 51]

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SENATOR HEIDEMANN: That was a good observation...good comment. Yeah, never mind. (Laugh) Senator Nordquist. [AGENCY 51]

SENATOR NORDQUIST: Thank you, Mr. Chairman. Thank you, President Milliken, for joining us. You know, a lot people say we have tough decisions here, but you certainly have a lot of tough decisions going forward with the system, especially if we have to make a reduction like this, balancing the needs of working families and their access for their children to attend higher education. And after much debate last year, this committee decided to put some language in the budget bill kind of giving you direction, telling you, you should prioritize something over something else. As you go through and make these tough decisions and set priorities for the university, are there policies or mission or is there statute that guides you on what the top priority of the university system should be and going forward? [AGENCY 51]

J.B. MILLIKEN: Sure. Thank you, Senator. First of all in statute, I'm not going to be able to quote it but there is language in the statute about the first priority of the university being its teaching mission, the second being its research mission, and the third being its outreach or service mission. So that's I think a pretty broad statutory guide. But we have a strategic plan for the system that we follow that identifies priorities, the first of which is affordable access. Each campus has a strategic plan that fits with that system plan and we are constantly working every meeting of our board on how well we're hitting the targets that are in that systemwide plan and how well-integrated the campus plans are. So that's, on the ground, that's probably our best guidance as we go into making these decisions. [AGENCY 51]

SENATOR NORDQUIST: Great. Thank you. [AGENCY 51]

SENATOR HEIDEMANN: Senator Conrad. [AGENCY 51]

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SENATOR CONRAD: Thank you, Mr. Chairman. Thank you, President Milliken. I was talking with some colleagues earlier this morning about if there were to be a silver lining amidst in these difficult economic times and conditions, my feeling would be that it's a long overdue opportunity for all of the members of the Legislature, beyond the membership of this committee, and for many Nebraskans to closely be in turn with the budgetary process as we move forward. It seems that many times our decisions and negotiations, we labor in obscurity, which is fine and part of our work, but I see this as really a critically important opportunity for us all to have a better understanding about how the budgetary process works and will help us as we move forward, not only now but into the next biennium. And because of that dynamic, I was hoping that maybe you could take a moment to talk about how your sense of needs develop at the University of Nebraska. It dovetails a little bit off of Senator Nordquist's question. But I think Nebraskans are familiar that we have a TEEOSA funding formula, we have an intricate funding formula when it comes to deciphering the needs of K-12 education in this state, but the university doesn't have that same kind of system in place to determine what their budgetary needs are. So if you could talk just a little bit about that, I think it's an important piece of education for all of us and other members as we move forward.

[AGENCY 51]

J.B. MILLIKEN: Well, of course, we do have a strategic plan that helps guide what our investment decisions are. We don't have a formula, as many states do that, for instance, a common formula would be to increase by a certain amount the state appropriation for growth in enrollment based on credit hour production. There are a number of states, including the one that I came from most recently, North Carolina, that has an enrollment growth formula. We don't have that. At the same time, we are trying to increase enrollment because we think that one of the sort of primary goals that we have is to provide for higher educational attainment in Nebraska. It's a national goal. We've seen that we are falling behind other countries now. We're, I think, tenth in the world in population, in the age group 25 to 34. We used to be first. So it is now I think a consensus developed nationally that we need to educate more of our citizens and

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particularly those that are in the age group going to college now. That's what helped inform the decision to be in the top ten in college going. We've got a long ways to go. We're about 20th now in the country in college going. If we want to be in the top ten, we've got to do a significant amount of work in increasing the number of high school graduates that go on to the university and to other institutions. That costs money. The reason states have enrollment growth formulas is because tuition at a public university does not pay the cost of attendance, particularly for residents, in fact, does not come close, probably pays about a third of it. So that's, I suppose, a handicap in a place that does not have an enrollment growth formula when that's a particular part of the agenda. We do try to make up for that with a budgeting process that rewards campuses for increasing their enrollment by providing more revenue to them, largely that's generated by the growth in enrollment, but that's a challenge for us and always without having that automatic increase related to that. I'm not sure I answered your question fully but I'll...if you'll... [AGENCY 51]

SENATOR CONRAD: No, I think that it is a good response in terms of just making sure that Nebraskans and our colleagues understand that we don't just plunk numbers into a formula to determine what the state contribution to your needs are but, rather, you set your needs through an intricate process of its faculty and the Board of Regents and otherwise. You come and present those to us and, at least in my three years on this committee, we fund a very nominal amount of those needs as we move forward, which I wanted to illustrate for people as we move forward in the last biennial we provided a nominal increase to the university's budget and that resulted in considerable job loss across the system. And so even with small increases that are far below what the needs are, we still see struggle. So a 5 percent cut below that is potential for very dramatic outcomes, I think. And then finally I just thought, again from an educational standpoint, if you could talk about, we've heard a lot of discussion about furloughs, layoffs, and otherwise impacts in terms of state employment as we move forward. I know you've said it's too early to figure out how you will make those cuts, but if you could just remind this committee generally in terms of employment numbers where the university is as

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compared to where it has been. And it seems to me that they've taken some pretty significant hits over the past few years in terms of reducing their employment level and continue to do more with less, and just maybe provide a general overview about where we are there. [AGENCY 51]

J.B. MILLIKEN: Yeah. What we did obviously earlier in this decade probably had the most significant impact on the university's personnel budget. But just to give you an example, over the last year we put in place about \$8.5 million of reductions to the existing budget, reallocated those funds to meet other obligations. That resulted in the elimination of 103 positions. That's roughly the amount of the reduction in the Governor's recommendation for the current year. It's \$8.8 million or something like that. So if you were just looking at some past history as an example, that would be...that would be one. Then add to that an additional \$16 million or so for the...double that number for the second year. And it doesn't all come out of personnel, of course. There were reductions made. For instance, we...our travel, which we wanted to take a look at other nonpersonnel operating costs last year, we asked people to save in that regard. They saved almost 7 percent less spending on that last year than the year before. This year we're down over 10 percent, double-digits in that for the first four months of the year. I'm not certain that that's a trend but I do think it reflects that people are trying to look at areas in the operating budget other than personnel to save funds to try to minimize the impact on those positions. [AGENCY 51]

SENATOR CONRAD: But then would you agree that overall the university has seen a reduction in employment over the last ten years to the point where you're really at one of your lowest points right now in terms of employment and personnel than you have been in recent history? [AGENCY 51]

J.B. MILLIKEN: You know, Senator, I'd have to look and get you that information. In a relative sense I would say that is true, and by that I mean that at a time when we are growing enrollment every year for five years, five years in a row, that puts additional

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burdens on the university, additional faculty positions that need to address those, plus other student support positions. And as I mentioned, we're now at the highest enrollment in over 12 years and so...and then at the same point eliminating 103 positions last year to this year. So in a relative sense, the job that we have to do with the resources available, I would say you're right. [AGENCY 51]

SENATOR CONRAD: Okay. One final question. The Chairman talked generally about other states' reactions and other states' institutions of higher education reaction to the economic conditions that we're operating under. And I know that I've talked with other members of the committee about this and, in fact, we don't want to punish Nebraska students for other states' fiscal mismanagement, of course, but from a comparative analysis point of view, if we were able to mitigate the impacts on our institutions of higher education during these difficult times, won't that in fact provide a strategic advantage for Nebraska as we move forward? [AGENCY 51]

J.B. MILLIKEN: Oh, absolutely. I can't tell you what this has meant over the last couple of years for us to have a stable, even if small increase, but a stable state budget compared to what our peers are. I think we are in a buyers' market today in terms of talent, and this is all about a race for talent. We've been able to increase the amount we put into financial aid, which I think has made an important difference for Nebraskans. We have a successful capital campaign underway which I think is...the success of that is in large measure due to what people see as the strength of the state's investment in the university and the returns for that and how they can leverage their donations to try to achieve goals that they agree with. So I think it has. I think this university, in a relative sense, is in as strong a position today as it has been in recent history over the last couple of decades. And I think that's due to the strength of Nebraska's economy, in a relative sense, but also to the commitment of Nebraskans to support education. [AGENCY 51]

SENATOR CONRAD: Thank you. [AGENCY 51]

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SENATOR HEIDEMANN: Senator Fulton. [AGENCY 51]

SENATOR FULTON: Thank you, Mr. Chairman. Thank you, President Milliken. The reduction in year one, want to ask specifically about that, so we are actually...we're going through a process right now that's, you know, that's open for people to see and that's because our revenues have decreased in year one. We are asking you to consider this reduction in year one. And I know in your talk you said that in year two you will have had some time to contemplate what to do in year two. What happens in year one? Can you outline the process of how the university will go forward if indeed we invoke cuts such as these? [AGENCY 51]

J.B. MILLIKEN: Well, in year one, it will for the most part not be permanent reductions; that we will look for every opportunity to save and reduce expenditures during the current year. I would use the example of last year when the policy leaders in this state said that if you save you'll be able to reinvest that. We saved about \$7 million. So this year we'll be doing roughly the same thing. If the...take, for instance, if the Governor's recommendation is...would be adopted, \$8.8 million or something, we would be looking to save that amount this year in sort of one-time savings and reduced expenditures, in hires that we don't make, in purchases that are not made. But next year, that amount plus the amount for the second year of the biennium would have to be permanent reductions. The reason we do this is because of the process that takes some time. We're now in the middle of the fiscal year and we need to work with people on the campuses to put in place a process and make decisions on permanent reductions. [AGENCY 51]

SENATOR FULTON: Okay. Thank you. [AGENCY 51]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 51]

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SENATOR WIGHTMAN: Thank you, Mr. Chairman. Thank you, President Milliken. At some point in your presentation you talked about how many students I think are nontuition-paying students through various legal aid programs...or not legal aid, educational aid programs. [AGENCY 51]

J.B. MILLIKEN: (Laugh) Yeah. [AGENCY 51]

SENATOR WIGHTMAN: What was that figure, like 6,000? [AGENCY 51]

J.B. MILLIKEN: Well, let me...let me try to clarify this if I could. What I was referring to is Collegebound Nebraska, which is a guarantee which essentially says that if you're in a typical family of four in Nebraska with an income of \$50,000 or below, you won't pay tuition at the University of Nebraska, and that's a promise that we make so that people know that if they prepare that there is assistance available to help them attend the university. The funding for that promise comes from a variety of sources: Pell Grants, state funds, private funds. What we are doing is ensuring that they will not have a tuition bill to pay. Now a person who was at the highest level of financial need got a full Pell Grant, over \$5,000, they would get, you know, perhaps double that in financial aid from the university ultimately. So tuition is not the only piece and for those 6,000 students who qualified for Collegebound Nebraska, that tuition could be paid by a variety of sources. [AGENCY 51]

SENATOR WIGHTMAN: Did you have a number on that? [AGENCY 51]

J.B. MILLIKEN: I said 6,000. [AGENCY 51]

SENATOR WIGHTMAN: Six thousand, that's what I remembered. [AGENCY 51]

J.B. MILLIKEN: Yes, in excess of 6,000. [AGENCY 51]

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SENATOR WIGHTMAN: Is this a growing percentage of our total student enrollment?
[AGENCY 51]

J.B. MILLIKEN: It was somewhere in excess of 4,000 the year before, 4,500, something like that. Of course, we increased the coverage of it. We used to say that if you were eligible for a Pell Grant you would pay no tuition, a Pell Grant at any level. Then because of a couple of things that happened, one is the Pell Grant, the maximum Pell Grant went up, there was more funding provided by the federal government for that, plus we reallocated additional funding to help for need-based financial aid, so now then we lifted it above the Pell Grant eligibility level. So we increased the number of students and families who are eligible for it. [AGENCY 51]

SENATOR WIGHTMAN: So percentagewise it grew quite a bit if you had a... [AGENCY 51]

J.B. MILLIKEN: Yes, it did. [AGENCY 51]

SENATOR WIGHTMAN: ...5 percent increase in enrollment but a 50 percent increase in those that paid no tuition, if the 4 and the 6 are... [AGENCY 51]

J.B. MILLIKEN: Yes. It's not quite 50. I think it was maybe 4,500 to 6,000. So, yeah, but it was a significant growth. [AGENCY 51]

SENATOR WIGHTMAN: The Collegebound Program, and I know that you have one out at Lexington, Nebraska, but...and that may be UNK rather than UNL but...or maybe it's the total university system. I'm not sure. [AGENCY 51]

J.B. MILLIKEN: No, there are...these college prep academies, which exist in Grand Island and Lexington and North Platte and Omaha, are...at this point, UNK has a couple and UNL has a couple. [AGENCY 51]

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SENATOR WIGHTMAN: Is that a growing number or is that...? [AGENCY 51]

J.B. MILLIKEN: Well, it would grow. I think there's great demand. It would grow to whatever we set the number at, but those are expensive programs and we have said that we're going to pilot them and we are yet to see those students in college. The programs haven't been in place long enough. We think they will be successful. We think they are...that they provide a great deal of motivation and incentive in Lexington and the other places where we have them, and so we are in discussion about, if these are things we want to continue, how do we sustain them financially and how do we scale them to be universitywide operations. [AGENCY 51]

SENATOR WIGHTMAN: Now some of those are targeted not entirely based upon income, although I suppose mostly income, but also on whether members of the family have previously attended college and... [AGENCY 51]

J.B. MILLIKEN: Generally, first generation college going would be a requirement for those programs. We're trying to address a group of students who are the least likely to go on to college and a pretty good proxy for that would be if no one in their family had attended college. So low-income and no one in your family has gone on to college are about the two best indicators we have. [AGENCY 51]

SENATOR WIGHTMAN: One final question on the 6,000, or approximately that, that would not be paying tuition. A lot of the funds come into the university, though, through the Pell Grants and sources that keep those students from paying tuition. Is that correct? I mean the university doesn't lose all that revenue because the Pell Grants are then paid to the university. Is that correct? [AGENCY 51]

J.B. MILLIKEN: Exactly. There are federal sources, private sources, state sources, and institutional sources that cover our financial aid, including that commitment. [AGENCY

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51]

SENATOR WIGHTMAN: Right. Do you have a figure on what percentage of it the university actually provides as opposed to not being...or to being reimbursed through some other source? [AGENCY 51]

J.B. MILLIKEN: I do, but I can't... [AGENCY 51]

SENATOR WIGHTMAN: Give it. [AGENCY 51]

J.B. MILLIKEN: ...cite it right now. I'd be happy to get it for you. [AGENCY 51]

SENATOR WIGHTMAN: Thank you, Mr. President. [AGENCY 51]

SENATOR HEIDEMANN: Senator Nelson. [AGENCY 51]

SENATOR NELSON: Thank you, Mr. Chairman. President Milliken, just one question, maybe wrap things up. Next year you feel that there will have to be reductions but, if I understand you, you're going to try to manage without raising tuition? Is that...would that be correct? [AGENCY 51]

J.B. MILLIKEN: No, that is not correct. [AGENCY 51]

SENATOR NELSON: No? All right. [AGENCY 51]

J.B. MILLIKEN: What I...and sorry if I was confusing about this. What I tried to indicate was that there are a number of states who are looking at midyear tuition increases, Iowa is looking at it and I think California and others, because of budget cuts being made in the middle of the fiscal year. And what I would say to you is that that's not something, at least at this point and with this level, that we are looking at, at the University of

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Nebraska. We will consider an annual change in tuition at the time we normally do it in the spring of the year for the next academic year. [AGENCY 51]

SENATOR NELSON: All right. Thank you. [AGENCY 51]

J.B. MILLIKEN: And I would...well, I'll leave it at that. [AGENCY 51]

SENATOR HEIDEMANN: Seeing no further questions, thanks, J.B., for coming in. [AGENCY 51]

J.B. MILLIKEN: Thank you. Thank you very much. [AGENCY 51]

SENATOR HEIDEMANN: At this time, out of curiosity, I just would like a show of hands for anybody that is wishing to testify on Agency 51, the University of Nebraska. Seeing none, we will close the public hearing down on Agency 51 and open up the public hearing on Agency 75, the Nebraska Investment Council. Welcome. [AGENCY 51]

JEFF STATES: (Exhibits 2, 3) Yes, good morning, Senator Heidemann and members of the committee. My name is Jeff States, S-t-a-t-e-s, and I'm the State Investment Officer for the Nebraska Investment Council, newly hired, about 2 hours and 20 minutes on the job I think, but I have had some briefing on the subject matter and will hope, if I can't answer your questions, it would be appropriate to defer to my staff who has worked on this issue. The Investment Council, as I'm sure you're aware, it shows in the handout, has responsibility for a fairly large number of programs. We have 80 percent of the assets that we're managing being various trust funds and 20 percent being nontrust funds, the bulk of which are the operating investment pool for the Treasurer. Sorry to draw a blank there. As you know, the council, I think, takes its duties highly responsible but they made it clear to me in my hiring process that they were also very interested in making sure that as we try to manage the funds that are under their responsibility and mine, as a fiduciary, that we are also conscious of the costs of managing those. And the

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council is very concerned and interested in participating, to the extent we can, in helping the state through its current fiscal problems. And we also appreciate the fact that the Legislature has been supportive in its appropriations in the past in helping us ensure that we're adequately staffed and have budgets to make sure that we professionally manage those funds. Our budget to date is somewhere around \$2.4 million or \$2.5 million; 80 percent of that, as I said, is basically funded through the trusts, and the other 20 percent is allocated to the nontrust entities. That's about two basis points for an operating expense of the assets that are under management today, which are roughly \$12 billion; I would say is a pretty small cost or a price to pay for making sure that the funds that are charged to us are being properly overseen and managed. Part of this budget, the majority of it, supports staff positions and we appreciate the importance of being adequately staffed and would hope that the council or, I mean, the Legislature and your committee, in considering the recommendations made by the Governor, will be conscious of that from the perspective that we believe we have within our budget the ability to address and absorb the cuts that are being suggested at this point by the Governor's Office at various levels, but hope that the two positions that the Legislature had created in the last year or so and authorized for the council would not be lost in that process. We can use the fact that those are vacant right now to help get us through this issue; that in long term those positions were created because we believe they're needed. And the primary reason they were not filled over the last six or eight months was primarily because of the vacancy in the State Investment Officer slot, with the council deferring in that matter to wanting the new SIO to have the opportunity to evaluate the services that are being provided and how to best staff those functions. And so it will take some time to do that. I don't have, as you can tell, a big statement or a lot to say except that I think we are fully appreciative of the difficulties the state has and want to be supportive of those but mindful of the fact that a significant portion of our budget really does not...well, it comes from the endowments and is from transfers and only a smaller portion of our budget affects directly the state budget. We would hope to be mindful that the allocation that we're currently using of 80 percent being absorbed by the trust funds and about 20 percent of the budget being allocated or apportioned to the

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nontrust fund assets would be maintained, so that as we look to produce savings, again, that the appropriate allocation of the budget between the nontrust and the trust funds is maintained so that the trusts are not being asked to pick up costs that really are not appropriate to their function. Because it's also important that the trust fund assets only be used for the management of the trust and that the nontrust funds that we have, again which are primarily the operating investment pool, can pay their fair share of the cost to...for the functions that we provide for them. Having said that, I'd be perfectly happy just to take some question and let staff answer if I can't. [AGENCY 75]

SENATOR HEIDEMANN: Thank you for coming in today. Nice meeting you also.
[AGENCY 75]

JEFF STATES: Nice to be here. [AGENCY 75]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 75]

SENATOR MELLO: Thank you, Mr. Chairman. And, Mr. States, welcome. If you really have been on the job two hours, wow, what a first day. (Laughter) Real quick, I wanted to review something that you mentioned in your testimony. [AGENCY 75]

JEFF STATES: Sure. [AGENCY 75]

SENATOR MELLO: You said that the Investment Council's budget is two basis points of the investments? [AGENCY 75]

JEFF STATES: The budget as it's appropriated and the funds that, yeah, are included in the budget at about \$2.4 million compared to assets of \$12 billion roughly today.
[AGENCY 75]

SENATOR MELLO: How much...how many basis points does the state, through the

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Investment Council, how many basis points do we pay out to Wall Street banks and investment firms? [AGENCY 75]

JEFF STATES: The outside external management is costing us today roughly 40 basis points, somewhere in that neighborhood. [AGENCY 75]

SENATOR MELLO: What does that equate dollarwise? [AGENCY 75]

JEFF STATES: Forty basis points against \$12 billion would be about...my math should work faster because I don't want to say that it's \$4.8 million. It may be \$48 million. [AGENCY 75]

SENATOR MELLO: So roughly \$48 million? [AGENCY 75]

JEFF STATES: Yeah, I think that's...yeah, I think that's... [AGENCY 75]

SENATOR MELLO: So just so...so for the record purposes at least, for members who are not on the Retirement Committee, the state of Nebraska, through our Investment Council and the way our retirements are set up, spends close to \$48 million a year in fees to investment banks and Wall Street firms? [AGENCY 75]

JEFF STATES: Yeah, primarily for external investment management, you know, for the expertise that they have that we don't have within the staff to invest the funds. [AGENCY 75]

SENATOR MELLO: Now as something I know that with the previous Investment Officer, and it was an appropriations matter we took up last year, that the Investment Council, with the hopes of trying to save more of that funding, instead of shipping that \$48 million out of state to Wall Street, that we were going to look at mechanisms to strengthen the Investment Office personnel so that we could bring more of those investments inhouse.

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Is that something that you have discussed at all? I know once again it's your first day, but at least through the transition from Dave Bomberger, who was the Investment Officer, is that's something that's been discussed? [AGENCY 75]

JEFF STATES: Right. Yes, in the hiring process and in the first, although I wasn't officially hired, council meeting I attended at the end of September, one of the things that the council made fairly clear as part of my mandate is to assess how we're providing the services and managing the funds with being highly conscious of the cost of that and trying to reduce those, which would include looking at our ability to bring some functions inhouse, if that seems appropriate. And that's why, again, I would say it's important to be able to maintain the staffing that has already been approved as we try to provide some budget relief at the same time. [AGENCY 75]

SENATOR MELLO: Okay. Thank you, Mr. States. [AGENCY 75]

SENATOR HEIDEMANN: Senator Fulton, I believe, had a question. [AGENCY 75]

SENATOR FULTON: Yes. Thank you, Mr. Chairman. Thank you, Mr. States. Welcome. [AGENCY 75]

JEFF STATES: Thank you. [AGENCY 75]

SENATOR FULTON: Could you comment on the appropriateness of moving Cash Funds over to the General Fund? And when I say appropriateness, do you see us running up against any type of statutory hurdles? Would we be disallowed by anything other than principle? [AGENCY 75]

JEFF STATES: Well,... [AGENCY 75]

SENATOR FULTON: Principle with a p-l-e. [AGENCY 75]

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JEFF STATES: Yes, I...I mean, clearly, as I had indicated earlier, as a fiduciary in managing trust funds, it's important to make sure those funds only pay the cost of services related to them so we don't want to see funds, that are necessary to support the office that provide functions for those nontrust monies, and particularly the operating investment pool, not being received or basically we want to make sure that there's a proper allocation. There is statutory authority which I was provided by staff that relates to that transfer or transfers of funds to the Cash Fund, which does indicate that unless otherwise prohibited that we should be prorating the expenses of the office in some basis between the trust funds and the nontrust assets. And so we want to make sure that that allocation is appropriation, but have felt that the 20 percent proration that is currently being used is and has been an appropriate method to do that. So right now I think we would have some issue about trying to reduce that level of transfer or the transfer to the Cash Fund because we really believe that what we're currently receiving kind of covers the costs of the operation of those nontrust fund assets. [AGENCY 75]

SENATOR FULTON: Okay. [AGENCY 75]

JEFF STATES: But in the extent that the statute gives us authority, that's I guess the basis for what we're doing and the allocation that's been done. You're probably more familiar with your code than I am, but it's 72-1249.02. [AGENCY 75]

SENATOR FULTON: Okay. All right. Thank you. [AGENCY 75]

SENATOR HEIDEMANN: Senator Nordquist. [AGENCY 75]

SENATOR NORDQUIST: Thank you for joining us today. What positions are the ones that we appropriated that are vacant right now, or there was one you want I think? [AGENCY 75]

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JEFF STATES: One position, if I'm reading it correctly, was designed at the time it was being worked on by Mr. Bomberger was to be supportive for the operating investment pool. It was to be a second person working with those funds. The other position, as I understand it, had not actually been designated with respect to the functions and was to be determined. [AGENCY 75]

SENATOR NORDQUIST: Uh-huh. And correct me if I'm wrong, I think Director Bomberger had looked at contracting or getting some outside help to do that, and the cost to do that was significant. I mean it was in the millions, if I remember right. I don't know if you've had a chance to look at that but... [AGENCY 75]

JEFF STATES: I have not but I would believe it is, yeah, I mean similar to other investment management costs that we're... [AGENCY 75]

SENATOR NORDQUIST: Yeah. So this one position that if we took this reduction you would have to keep that position open probably and use those savings, or how would that...to make ends meet. [AGENCY 75]

JEFF STATES: I think, you know at least at this point in time, we're looking at using that vacancy savings... [AGENCY 75]

SENATOR NORDQUIST: Okay. [AGENCY 75]

JEFF STATES: ...as the best or most appropriate way right now for doing that.
[AGENCY 75]

SENATOR NORDQUIST: So you being a fiduciary for this plan, if we left that position open there may come a time where you...and you had to use those vacancy savings, there may come a time where you say it's best for the plan, we have to have somebody on this, we might have to go the outside route and spend millions of dollars, where here

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we're looking at a few hundred thousand dollars. [AGENCY 75]

JEFF STATES: That would be true, yeah. [AGENCY 75]

SENATOR NORDQUIST: Okay. [AGENCY 75]

JEFF STATES: And so, as I say, the council has clearly said we should assess our ability to bring things inhouse and use staff to reduce the operating costs if we can. [AGENCY 75]

SENATOR NORDQUIST: Good. And not that I'm advocating that. I just wanted...or advocating this. I just want to make sure that... [AGENCY 75]

JEFF STATES: That would be a proper trade-off, yeah. [AGENCY 75]

SENATOR NORDQUIST: Yeah. Yeah. On...if we were to take...if we were to leave the cash and give you the authority but transfer whatever is here out of the Cash Fund, is there enough balance in the Cash Fund to keep going or is it not? Or maybe that's a question you might not know the balance of the Cash Fund. If we allowed you to spend that money and we also took money out, is that going to put the fund in jeopardy. Yeah. [AGENCY 75]

JEFF STATES: I think, if I understand your question right, that the Cash Fund, as long as the appropriation level we have is retained and the savings are produced by the way the funds are allotted, that we... [AGENCY 75]

SENATOR NORDQUIST: Okay. [AGENCY 75]

JEFF STATES: ...would have sufficient balances in the Cash Fund. [AGENCY 75]

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SENATOR NORDQUIST: Okay. [AGENCY 75]

JEFF STATES: But we'll think about that but I... [AGENCY 75]

SENATOR NORDQUIST: Okay. Thank you. [AGENCY 75]

SENATOR HEIDEMANN: Senator Hansen. [AGENCY 75]

SENATOR HANSEN: Thank you. Welcome to Nebraska and your job. [AGENCY 75]

JEFF STATES: Thank you. Pleasure to be here. [AGENCY 75]

SENATOR HANSEN: The...Senator Fulton asked you about some cash funds. Are the other cash fund agencies that...I mean that operate strictly on cash, their excess funds, are they invested with the Investment Council? [AGENCY 75]

JEFF STATES: I believe so, yeah, in the operating investment pool [AGENCY 75]

SENATOR HANSEN: Okay. So any cash-funded agency that has a cash reserve would be in the Investment Council, any cash-funded agency. [AGENCY 75]

JEFF STATES: They may be. I believe so, yeah, even if it's coming to us through the Treasurer, yeah, in some form. [AGENCY 75]

SENATOR HANSEN: And is it true that they cannot invest their own money in like a local bank. [AGENCY 75]

JEFF STATES: Yes. [AGENCY 75]

SENATOR HANSEN: Okay. Is the University of Nebraska Foundation in that group too?

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[AGENCY 75]

JEFF STATES: No, not generally. We have one endowment I think that was discussed at the last meeting, the way it was given to the university we seem to have some responsibility for, but it's fairly small. [AGENCY 75]

SENATOR HANSEN: The University of Nebraska is a department of the government. It's a state agency, albeit it's handled differently. Why is...would you consider using...I mean getting that University Foundation money just like the rest of the cash agencies? [AGENCY 75]

JEFF STATES: That's an issue I guess I'm not prepared to address at this point. I'm sorry. [AGENCY 75]

SENATOR HANSEN: Okay. I just wanted to...yeah. [AGENCY 75]

JEFF STATES: I'm not familiar with that enough. Yeah. [AGENCY 75]

SENATOR HANSEN: I just wanted to bring it up. Thank you. [AGENCY 75]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thanks for coming in today and hope things go well for you. [AGENCY 75]

JEFF STATES: Thank you. And I'll be better prepared the next time. [AGENCY 75]

SENATOR HEIDEMANN: You did good. Is anyone else wishing to testify on Agency 75? Seeing none, we will close up the public hearing on Agency 75, open up the public hearing on Agency 77, the Commission of Industrial Relations. Welcome. [AGENCY 75]

ANNETTE HORD: (Exhibit 4) Good morning, Senator Heidemann and members of the

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committee. Thank you for giving me a chance to come. I'm going to be pretty brief. Your assistant is handing out a copy of a letter and basically what the letter is telling you is that the Commission of Industrial Relations have reviewed the amounts proposed by the Governor and we feel that we can live with the cuts that he had proposed. This is based upon our current level of cases and it is solely due to the decision last year to allow agencies to reappropriate unused funds from 2008-2009. That allowed us to move into this biennium with enough money to operate. Additional cuts to the budget or the reappropriations, which have been cut somewhat for us but they are still at a level that I believe that we can operate with what has been recommended, but if we had more it would be difficult for us to absorb it and still continue to operate, provide services to public employers and employees of the state of Nebraska. We're a small agency, three full-time staff, five per diem commissioners. Currently, we have no vacancies in our operation. And we are totally dependent upon cases being filed with us, which we don't have any control of. I was sitting here thinking, you know, I could walk back over to my office this morning and find out we've had five cases filed. I don't think that's going to happen, but it could, and we then deal with those. And so we have traditionally been pretty prudent with our spending just because we don't know what's coming. And I do say there's concern that the present tough economic times could substantially increase the number of cases coming before the commission, however, we do not know that. There's no way we can necessarily know that. So that's all I really have, if there's any questions. [AGENCY 77]

SENATOR HEIDEMANN: Thank you for coming in today and for keeping your comments brief but very informational, and we appreciate that looking at the close and we have six agencies left to go in 60 minutes. (Laugh) [AGENCY 77]

ANNETTE HORD: Yeah. [AGENCY 77]

SENATOR HEIDEMANN: Are there any questions? Seeing none, thank you. [AGENCY 77]

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ANNETTE HORD: I forgot to spell my name, by the way. [AGENCY 77]

SENATOR HEIDEMANN: Is anyone else wishing to testify on Agency 77? Seeing none, we will close the public hearing on Agency 77 and open up the public hearing on Agency 85, the Public Employees Retirement Board. We'll take a brief break. We do believe they are here. Welcome. [AGENCY 85]

PHYLLIS CHAMBERS: (Exhibit 5) Good morning. Sorry for the delay. I apologize. Maybe you got a quick breather for a minute. Good morning, Senator Heidemann and members of the committee. My name is Phyllis Chambers and I'm the director of the Public Employees Retirement Systems. Thank you for the opportunity to address the committee. We certainly appreciate the funding support that we have received from you and we will continue to make every effort to fiscally manage and administer the plans of our state. We also understand the state's current fiscal situation and we will do our part under the reductions recommended by the Governor. The administration of our plans and the board expenses fall under Program 41 and 42, which are cash-funded by trust assets of the various plans. And just to remind you, the plans we administer are the school, judges, and patrol, the state and county employees, and a deferred compensation. So we have six plans. I wanted to address Program 515. This is the program where the state contributes to our retirement plans from the General Funds. Each year, the actuary analyzes the defined benefit plans and our cash balance plans to determine whether any of the plans need an actuarial required contribution. The actuarial required contribution is based on a 30-year amortization payment of the total pension plans' liabilities. NPERS reports this information to the Retirement Committee and the Appropriations Committee, and then you appropriate the necessary funding. The Legislature has made a commitment to the state's employees to fund these actuarial-required contributions every year. It's no secret that the financial crisis in 2008 had a negative impact on our retirement plans. The plans suffered a \$1.8 billion loss and we are smoothing that loss over the next five years. Last March, the actuary

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reviewed the DB plans, the defined benefit plans, and based on the investment returns at that point in time, in March, he projected what the amount of the state contributions would be over the next five years. Based on the actuary's projections and recommendations by the Retirement Committee, your committee appropriated \$20 million in 2010-11 for the school plan, and \$1.9 million for the State Patrol. And that is your handouts, that appropriations that...the contributions that were recommended by the Retirement Committee. This month, the actuary revised his projections for the defined benefit plans based on the fiscal yearend June 30, 2009 returns. He also considered the effect of the increase in the employee/employer contributions on the defined benefit plans. For the school plan, it added about \$33 million this year by increasing those contributions 1 percent. So it was determined that the school will not need the \$20 million that you appropriated this year...in the 2010 fiscal year. But it will need the contributions in the following year and more in subsequent years, and that is depending on whether we have a modest recovery. If you look at page 3 of the actuary report, October 19--and that is in this bundle that I gave you. It's not really page 3...it is numbered page 3 but it's not the third page. You will see on the first line, the additional state contribution needed for the school plan as estimated by the actuary. He shows that in 2011 there will be \$37 million; \$69 million in 2012; \$105 million in 2013; and \$125 million in 2014. And he tells me that you would need \$125 million each year thereafter for the next 25 years. That again is based on a modest recovery and depending on what happens with our investments over time, and hopefully we will have a strong recovery. The patrol plan is listed on page 4. It's estimated that you will need \$1.7 million for 2010, so we have dropped...reduced the amount requested by \$266,000. And then it also shows that you're going to need \$3.3 Million in 2011; \$4.9 million in 2012; \$6.4 million in 2013; and \$7.2 million in 2014. Again, based on a modest recovery. And the other defined benefit plan is the judges and it is shown on page 5. There are no additional contributions needed until 2013. The plan has been funded by an increase in employee/employer contributions and also an increase in court fees. As far as the state and county cash balance plans, those are on a calendar year, and I've added, on the last few pages, the report from last spring which shows the estimates of what the cash

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balance would need. Those are for the state and county employees. And there's no additional contribution needed until 2012 for those plans, and you can see what those are listed as. We'll know more this spring on the cash balance, because they will be valued at the end of this year, 12/30/2009. The Legislature has committed to annually contributing to these plans to make up for the deficiencies in the public employees retirements. I want to remind you that 90 percent of those benefits that are paid to our retirees stay in Nebraska, and they are vital to our retirees and to the economy of our state. I think it's important that we keep our adequate funding levels up to avoid finding ourselves in a dangerous position like some of the other states have. If you start getting behind, you're just going to get deeper and deeper in the hole. The actuary frequently reminds me of the old saying that "pay me now or pay me later." So we appreciate all the funding and certainly the support that you've given the retirement plans, and I'd be happy to answer any questions that you have. [AGENCY 85]

SENATOR HEIDEMANN: You had made a comment that really caught my ear. You were talking about the, on page 3, the school retirement system. You were talking about the additional amounts needed. And you...did you state that it was going to be \$125 million under a modest recovery plan, for the next how many years? [AGENCY 85]

PHYLLIS CHAMBERS: Twenty five years. After 2014. [AGENCY 85]

SENATOR HEIDEMANN: When you hear that kind of comment, I'm wondering then is that plan actuarially sound if we have to continue to put that kind of money into it? [AGENCY 85]

PHYLLIS CHAMBERS: I would...I guess from my point of view, I would say that I would have you ask the actuary that at...he will be here next week for our annual PERB joint meeting. And he is planning on addressing the Retirement Committee on Tuesday, November 17, at noon, and he's prepared to answer your questions...he'll be prepared to answer those questions. And since I am not a trained actuary, I cannot answer that

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question, but that is what he has told me. [AGENCY 85]

SENATOR HEIDEMANN: Just quickly, in my head, that's like \$2.5 billion over...
[AGENCY 85]

PHYLLIS CHAMBERS: Twenty five years. [AGENCY 85]

SENATOR HEIDEMANN: Twenty years. I only did 20 years. [AGENCY 85]

PHYLLIS CHAMBERS: Twenty years. Um-hum. Now keep in mind, you're going to have salary increases, you're going to have contribution increases, and so forth. That's the level dollar prediction, so...and it has to be evaluated every years. [AGENCY 85]

SENATOR HEIDEMANN: There is concern there, though, right? [AGENCY 85]

PHYLLIS CHAMBERS: Absolutely. [AGENCY 85]

SENATOR HEIDEMANN: Senator Nordquist. [AGENCY 85]

SENATOR NORDQUIST: Thank you, Mr. Chairman. Thank you, Director Chambers. As I look at this, so we have a liability of \$812,000, due in July 2010, for the State Patrol? Is that correct? [AGENCY 85]

PHYLLIS CHAMBERS: Yes, I believe so. [AGENCY 85]

SENATOR NORDQUIST: Okay. And have you talked to the administration, why are we reducing their amount then by \$266,000? [AGENCY 85]

PHYLLIS CHAMBERS: Because they don't need it this year. [AGENCY 85]

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SENATOR NORDQUIST: Okay. [AGENCY 85]

PHYLLIS CHAMBERS: The contributions, they went from 13 percent to 15 percent employee contributions, so that made up the 200...instead of needing \$1.9 million, then only needed \$1.69 million. [AGENCY 85]

SENATOR NORDQUIST: Okay. But as...so, okay, so as we do the budget, though, for fiscal year...for that...so it wouldn't be affected in this biennium, would that be right? Because would the payment be made after this biennium ends on June 30? [AGENCY 85]

PHYLLIS CHAMBERS: The \$1.69 million will be made next July 1. [AGENCY 85]

SENATOR NORDQUIST: Okay. Okay. And then the other question I had was I know a few states are looking at--and this might be something the actuary can address as well--increasing their smoothing time. We've had a lot of market volatility really since 2000. Some states have gone...some have gone too far, in my opinion, but we're at a five-year market smoothing. Really some of the research I've read, you extend that a little bit longer. It gives you just a clearer snapshot of the overall trends of the market. I don't know if you guys looked at that or talked to the actuary about making a change, maybe to seven years or...for these plans? [AGENCY 85]

PHYLLIS CHAMBERS: We have not, but that's something we could ask when he is here next week. I think, in general, the standard is about five years. [AGENCY 85]

SENATOR NORDQUIST: Okay. [AGENCY 85]

SENATOR HEIDEMANN: Senator Conrad. [AGENCY 85]

SENATOR CONRAD: Thank you, Director. In response to the Chairman's question

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related to some projected liabilities that the plans may anticipate, in your tenure or to the best of your knowledge have any of the participants within the various programs ever failed to come to the table and try and be honest brokers to address liabilities, actual or projected? [AGENCY 85]

PHYLLIS CHAMBERS: Well, this year everybody increased their contributions, and I would have to say that in other states they're still thinking about it. And our people stepped up to the plate, last spring, and agreed to do it right away. I mean, all of the interested parties did. So I would commend them for doing that. I don't know how much you want to increase contributions. There's a certain level. But I do know the State Patrol, they increased from 13 to 15, and they go up to 16 next year, the following year. The schools went from 7.28 to 8.28, and the judges went up a percent also and increased the court fees. So we have not increased state and county employees because that would...then the state would have to pay additional costs for those increases. [AGENCY 85]

SENATOR CONRAD: But it would be fair to say that teachers, patrolmen and women, and judges who utilize these programs have been very strong partners in being part of the solution, and have made considerable sacrifice in ensuring the solvency of these plans. [AGENCY 85]

PHYLLIS CHAMBERS: Yes. Yes, I would say so. [AGENCY 85]

SENATOR CONRAD: Thank you. [AGENCY 85]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 85]

SENATOR MELLO: Thank you, Mr. Chairman. Thank you, Director Chambers, for your testimony. Kind of follow-up question of what Senator Nordquist was asking. I believe it was for at the least the members on this committee who also serve on the Retirement

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Committee, it was my understanding that the more funding that the state put in earlier on in this recovery, the less we would have to put on in the long term. Looking at the numbers now and looking at the additional state contribution that Senator Heidemann mentioned, if we didn't take the \$20 million out of 2010, would that reduce our long-term obligation through the last four years? [AGENCY 85]

PHYLLIS CHAMBERS: It would provide you some interest income over the next...you know, over this coming year. Long term, over 30 years, I don't know what that impact would be, actuarially, but you could ask the actuary next week when he is here. [AGENCY 85]

SENATOR MELLO: How about the five years, your page 3 of the Buck Consultants reports here. If we put...if we left the \$20 million in for the state contribution to make the retirement plan whole, I believe...I would believe the last four years would see a reduction in what the state obligation is, depending upon the recovery. Is that...would that be an...am I off base with that assessment? [AGENCY 85]

PHYLLIS CHAMBERS: And it will depend if you plan on putting in the full 36 next year or if you plan on reducing that amount. [AGENCY 85]

SENATOR MELLO: What if we...just stating with what the agreement was last year, with the bill that the Retirement Committee passed with the Legislature and the amount of money we committed to make the retirement plans whole, by taking this \$20 million out, aren't we just extending and creating a larger obligation further down the road? [AGENCY 85]

PHYLLIS CHAMBERS: I would believe...I would say so. [AGENCY 85]

SENATOR MELLO: Okay. Thank you. [AGENCY 85]

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SENATOR HEIDEMANN: Senator Wightman. [AGENCY 85]

SENATOR WIGHTMAN: Thank you, Mr. Chairman. Thank you, Director. Page 2 of the attached report, I assume is what a modest growth is, is that correct? [AGENCY 85]

PHYLLIS CHAMBERS: Yes, it is. Page 2 explains it; yes. There's interest...or it shows the interest rates that the actuary used. [AGENCY 85]

SENATOR WIGHTMAN: Now what was your starting point? Because are we looking at stock market recovery clear up to date or are we looking at it as of a certain date? When did you make the decision that the \$20 million wouldn't be necessary? Was that a particular date? [AGENCY 85]

PHYLLIS CHAMBERS: Yes. We made that as of June 30 of this year. The numbers that are in this October 19 report are based on June 30. The numbers that we used last March were based on December 31 numbers. In December 31, the market was down negative 27.9, December 31, 2008. And June 30 of this year, it was down 18.7, I believe--18.9. [AGENCY 85]

SENATOR WIGHTMAN: When we look at the stock market today, it would be...if we looked at the stock market today, it would be higher. [AGENCY 85]

PHYLLIS CHAMBERS: And it's much, much better right now. [AGENCY 85]

SENATOR WIGHTMAN: What? [AGENCY 85]

PHYLLIS CHAMBERS: It's much better right now, so. [AGENCY 85]

SENATOR WIGHTMAN: Which none of that is taken into account yet. [AGENCY 85]

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PHYLLIS CHAMBERS: It's not taken into it. And when he does his actuarial reports, he bases those on the fiscal year-end, the calendar year-ends. That's how it's done. So he is basing these projections on that June 30. [AGENCY 85]

SENATOR WIGHTMAN: So if we were to look at a capsule in time and if we were looking at today's, we wouldn't have probably near as high a figure five years out or ten years out as we have right now, if we were looking at today's recovery. Is that correct? [AGENCY 85]

PHYLLIS CHAMBERS: I don't know how much of an impact that has over the 30 years. I think again we can ask him that question too. I should have had him come today, I guess. [AGENCY 85]

SENATOR WIGHTMAN: So it kind of changes on a daily basis, I assume, almost. [AGENCY 85]

PHYLLIS CHAMBERS: Well, as we see a recovery, it will make a difference, but I don't...I can't really speak to that. Because these...you have to keep in mind the retirement plans are long-term obligations. So it's not like an investment account you have where it's changing daily. It's...there are subtle changes, I think, but you're talking about smoothing \$1.8 billion in five years, so that is not a subtle change. [AGENCY 85]

SENATOR WIGHTMAN: Thank you. [AGENCY 85]

SENATOR HEIDEMANN: The State Patrol was before us last week. And one of the things that struck me, it's not always market forces; it's actually what's happening with their work force also. And when they're not hiring new state patrolmen, there's less people paying in. And at that time it would make it not as actuarially sound. Is that correct? It's not always just the market what is driving. [AGENCY 85]

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PHYLLIS CHAMBERS: Well, true. Your contributions and your investment income are what make up the plan, and then...so there's two parts to that as to what is actuarially in the benefit, and then...that's you are able to pay out. And so I guess, yes, the answer to your question would be, yes, there's two parts to it. [AGENCY 85]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 85]

SENATOR MELLO: Thank you, Mr. Chairman. Director Chambers, looking at some of the material that you provided us and based off some of not only the Retirement Committee's, but also the Appropriations Committee assessments of what our actual recovery will be, has there been any indication at all that we might not be moving towards a modest recovery, and instead a slow recovery, which would dramatically change these numbers? [AGENCY 85]

PHYLLIS CHAMBERS: I don't think so. I think that we are...I think using a modest recovery is okay at this point in time. We don't know what's going to happen. The market is looking pretty good right now. So I think that a modest recovery is a nice average to use. But certainly we don't know what will happen next year. [AGENCY 85]

SENATOR MELLO: Okay. Is that something the actuary will come and maybe discuss a little bit more of where he thinks or she thinks our recovery might be regarding, at least the retirement system? [AGENCY 85]

PHYLLIS CHAMBERS: Yes, I'm sure he will. [AGENCY 85]

SENATOR MELLO: Okay. Thank you. [AGENCY 85]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you. Is there anyone else wishing to testify on Agency 85? [AGENCY 85]

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KORBY GILBERTSON: Good morning, Chairman Heidemann and members of the committee. For the record, my name is Korby Gilbertson. It's spelled K-o-r-b-y G-i-l-b-e-r-t-s-o-n. I'm appearing today as a registered lobbyist on behalf of the State Troopers Association on Nebraska. I talked to you a little bit the other evening when we were discussing the State Patrol's budget. And as Senator Heidemann just said, we are concerned not only because of the fact that the Governor's proposal proposes to not fill current vacancies, as well as upcoming vacancies. That has a significant impact on their plan, as does the proposed to the budget. Last week, when we discussed this, Senator Nordquist stated that he had, in fact, introduced the legislation last year that increased the state troopers contribution percent by 2 percent. As most of you are aware, the statute does say that the state will make up that difference, however...and that there should only be increases in the contribution rate if there is a corresponding benefit increase. However, the troopers have always come to the table and we have enjoyed a very good working relationship, and that is why they have continued to come to the table. Part of that agreement last year was that the state would step up and put in an additional cash contribution to make our system whole. We feel that this cut severely undermines that agreement, and it's going to be very hard for me to go back to those people next year, and say, well, we know that you agreed last year to have a 3 percent increase over the next two years; now we need even more money from you. A 16 percent contribution rate, as you can imagine, is pretty high for these men and women who are out on the roads protecting our citizens. I'm always asked...and I think Senator Heidemann has even asked me before: What can we do to address this so we don't have to come back every year and readdress it? I'm not really sure what we can do, but I think cutting already budgeted contributions to the plan is a step in the wrong direction. I'd be happy to answer any questions. [AGENCY 85]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 85]

SENATOR MELLO: Thank you, Chairman Heidemann, and thank you, Ms. Gilbertson, for your testimony. We just heard from the director of the PERB board that, with the

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teachers, at least, retirement, we'll see a \$335 million obligation in the next five years. If we accept the Governor's proposal, it only increases that amount we pay over four years. If we take the Governor's proposal with the State Patrol retirement, as well, what is that...? Is that compounded number included in this document too, here, so I'm looking at making sure I know what... [AGENCY 85]

KORBY GILBERTSON: Right. It's on page 4 of that document. The State Patrol's retirement system figures are there. So as you can see, the amount that they are proposing to change is actually the 2010 amount, because in the agreement from last year the actual appropriation was 1.9, so they would cut that back to 1.6. The problem then starts compounding in 2011. But again, the contribution rate will go up again, 1 percent, both for the state and the troopers. So we'll see where that goes, but I'm assuming that that's in this assumption. Another question that was asked, you know, regarding the good returns we're having right now. We've not had losses and the stock market has not see losses that we saw last year since 1937, and it's only happened four times in the history of the stock market. The other years were 1801, 1807, and 1831. So none of us know where this is going to go. I mean, we have...not in my lifetime have we seen this. So it will be very interesting. We haven't had any losses since 2002. So right now, when you look at the returns, it looks like things might be okay. But that's because we're enjoying the smoothing from the last five years that we didn't have any losses. [AGENCY 85]

SENATOR MELLO: Okay. Thank you so much. [AGENCY 85]

SENATOR HEIDEMANN: Any other questions? Senator Nelson. [AGENCY 85]

SENATOR NELSON: Thank you, Senator. Thank you, Ms. Gilbertson. I'm trying to think back to the testimony of the State Patrol, but I've got some recollection that we have over 400 patrolmen. Do you know what the number is? [AGENCY 85]

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KORBY GILBERTSON: Right now, the number is 485. There's 505 positions available for full strength. They're agreeing to let them hire up to 488. However, there are six pending retirements. There are 27 or 28 members who have entered the DROP program, which means in the next five years they will be retiring. So we have a fairly significant hold there, that the fact that we're not having any camps and not hiring anyone. And I can't remember who on the committee said, we can have quite a bottleneck pretty soon. And obviously those people that leave and the people that are in the DROP program right now aren't contributing into the retirement plan. [AGENCY 85]

SENATOR NELSON: Well, but that seems to me would be in the area of about a 5 percent. And do you think that's really significant as far as contributions are concerned? [AGENCY 85]

KORBY GILBERTSON: I think it is when you look at the fact that we have not had staffing levels at 288 since more than 25 years ago. So taking the number just out of the air, doesn't...in a vacuum, doesn't seem like much, but when you consider the fact that we haven't had this few sworn officers since I think the year is like 1984 or 1985, I think that is a significant difference because they have many more responsibilities than they did 25 years ago. [AGENCY 85]

SENATOR NELSON: The stock market goes in cycles, of course, and we're on an upward trend. So I'm optimistic about it. We may get up to 12,000. And that would amply cover what you're asking us to restore. [AGENCY 85]

KORBY GILBERTSON: I think so, but this is the twentieth year I've been working on the State Patrol's retirement plan, and we always say that and then it's funny how we're back here six years later, going, oh my, what are we going to do? So I hope you're right. [AGENCY 85]

SENATOR HEIDEMANN: I was going to say, if it's going to go to 12,000, would this be

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a good time to buy? [AGENCY 85]

KORBY GILBERTSON: Yeah. (Laugh) [AGENCY 85]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you.
[AGENCY 85]

KORBY GILBERTSON: Thank you. [AGENCY 85]

SENATOR HEIDEMANN: Welcome. [AGENCY 85]

HERB SCHIMEK: Welcome. Mr. Chairman, members of the committee, my name is Herb Schimek, representing the Nebraska State Education Association. I've been doing that for 38 and a half years. We've had many of these cycles. I'm sure we'll have more in the future. As an association, we are always willing to step forward and make sure that the fund is actuarially sound. We plan on doing that in the future if it's needed. We think the stock market is headed in the right way, finally. There were many of us had the razor blade about half an inch from our wrist about a year ago, but things have started around. And it was up again this morning, so I'm glad to be here. Are there any questions? [AGENCY 85]

SENATOR HEIDEMANN: Seeing none, thank you for coming in. [AGENCY 85]

HERB SCHIMEK: Thank you very much. [AGENCY 85]

SENATOR HEIDEMANN: Is anyone else wishing to testify on Agency 85? Seeing none, we will close up the public hearing on Agency 85 and open up the public hearing on Agency 19, the Department of Banking. Welcome. [AGENCY 85]

JOHN MUNN: Good morning. [AGENCY 19]

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SENATOR HEIDEMANN: Thanks for your patience. Go ahead. [AGENCY 19]

JOHN MUNN: (Exhibit 6) Chairperson Heidemann, members of the Appropriations Committee, I'm John Munn. The last name is spelled M-u-n-n. Director of the Nebraska Department of Banking and Finance. Our department is a cash-funded agency and operates within two programs: Program 65--Financial Institutions, and Program 66--Securities. Each program utilizes a cash fund, the Financial Institutions Cash Fund and the Securities Act Cash Fund. We support the Governor's budget reduction recommendations and funds transfer request. In addressing the Governor's proposals, I will round all dollar amounts to the nearest \$1,000. For fiscal year 2010, the 2.5 percent reduction in appropriations to Program 65--Financial Institutions, totals \$132,000. The department is accomplishing this primarily through vacancy savings of \$81,000, resulting from five positions for which we have delayed hiring. The department has planned and will implement two layoffs that will result in savings of \$43,000 this year. The remaining \$8,000 for fiscal year 2010 will come in a reduction in the appropriated amount for temporary employees. In fiscal year 2011, the 5 percent reduction in the appropriations to Program 65--Financial Institutions, totals \$265,000. The department will achieve \$210,000 of the reduction amount by not filling two examiner positions for a savings of \$114,00; by extending the fiscal year 2010 layoffs, for savings of \$77,000, and eliminating \$20,000 budgeted for temporary employees. The remaining \$55,000 reduction will come from reducing operating expenses. The largest reductions will be \$30,000 in personal vehicle mileage reimbursements and \$9,000 in subscriptions. A combination of reductions in conference registrations, commercial transportation, board and lodging, office supplies, and postage expense will provide the remaining \$13,000 of appropriation reductions for fiscal year 2011. With respect to Program 66--Securities, for fiscal year 2010, the 2.5 percent reduction in the appropriations totals \$36,000. One of the positions for which hiring has been delayed is partially paid from Program 66--Securities, resulting in savings of \$15,000. One of the positions included in the fiscal year 2010 layoffs in Program 65--Financial Institutions, is partially paid by Program

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66--Securities, which will result in a savings of \$14,000. The remaining appropriation reductions will be achieved through a \$5,000 reduction in contractual services, and reductions of \$1,000 each in commercial transportation and computer hardware. In fiscal year 2011, the 5 percent reduction in the appropriations amount for Program 66--Securities, totals \$72,000. As I noted earlier, one of the layoffs in fiscal year 2010 was partially paid from Program 66--Securities, and for fiscal year 2011 this will provide savings of \$25,000. The remaining reductions will be \$30,000 in contractual services that relate to outreach programs, \$13,000 for information technology consulting, a delay of a planned upgrade to the department's software, and \$4,000 in computer hardware. The savings realized from the reduction to appropriations for Program 66--Securities, will be reflected as a cash transfer from the Securities Cash Fund to the General Fund, totally \$36,041 for fiscal years 2009-10 and \$72, 121 for fiscal years 2010-11. The Governor has proposed additional transfers of \$4 million from the Securities Act Cash Fund to the General Fund in both fiscal years. Our revenue estimates indicate this can be accomplished. I want to conclude my testimony by saying that field supervision of our state-chartered financial institutions and state-licensed financial entities will not be impacted by the proposed reductions. I appreciate this opportunity to review these reductions with the committee. I will be happy to respond to any questions the committee might have. Thank you. [AGENCY 19]

SENATOR HEIDEMANN: Are there any questions? Senator Hansen. [AGENCY 19]

SENATOR HANSEN: Thank you. Director Munn, it's good to see you at our committee. On the first page, you said the \$30,000 reduction in personal vehicle mileage. Do you use personal cars and not state cars when you go out to banking institutions? [AGENCY 19]

JOHN MUNN: That's correct. My understanding is that transaction happened in the late 1990s. Some of the challenges with using state cars, one, is having a state of Nebraska vehicle parked in front of a bank for an extended period of time is generally not a good

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message to send to the public. Also the coordination necessary in assembling examiners, when our examiners are outstate and if they're there for a period of days, they need to find places to dine in the evenings, perhaps recreational opportunities. You get a phone call that there's a state of Nebraska car in front of a liquor establishment and generally some bells go off there. But we are seeking to reduce the total dollar amount of personal mileage that we do reimburse. [AGENCY 19]

SENATOR HANSEN: What is that...what is that part of your budget...what part of the budget... [AGENCY 19]

JOHN MUNN: For this fiscal year, \$183,000. [AGENCY 19]

SENATOR HANSEN: \$183,000. Okay. Thank you. [AGENCY 19]

JOHN MUNN: So that would be about, what, a little less than a 20 percent reduction. [AGENCY 19]

SENATOR HANSEN: And that will still get the people out in the field that need to do the work. [AGENCY 19]

JOHN MUNN: Yes. There's also other... [AGENCY 19]

SENATOR HANSEN: Carpooling maybe? Something? [AGENCY 19]

JOHN MUNN: Yes. And there's also other mileage just in staff going...we operate crews of examiners in Omaha, Lincoln, and Kearney, in addition to our main office in Lincoln. Any time an employee goes from one office to the other, personal vehicle mileage is reimbursed. We hope, if we can get Kearney into the loop, we hope that we'll have video conferencing capabilities among all of our offices that will save a lot of trips. [AGENCY 19]

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SENATOR HANSEN: Thank you. [AGENCY 19]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 19]

SENATOR MELLO: Thank you, Chairman Heidemann, and thank you, Director Munn. Two questions. In your testimony you are specifically looking to lay off employees. [AGENCY 19]

JOHN MUNN: Correct. [AGENCY 19]

SENATOR MELLO: Has the department, or in conversations with the Governor's Office, at all, has the department looked to do any salary freezes from your position, as the director, or any deputy directors, to help ease this cost associated with the potential layoffs? [AGENCY 19]

JOHN MUNN: No, we've not. There's been, of course, discussions of possible furloughs. My feeling in that regard is, you know, rather than reduce the salaries for some period of time of all employees on whom that may be a very great hardship, possibly better to be borne by one or two. Also, when I speak to groups, I use the body language that the expectations of our agency from the Governor, the Legislature, the public, the industries we supervise, is this large. We have funding to do this much. We're always reprioritizing. The two layoffs that are being undertaken relate to areas away from financial institution supervision. We need to focus...the Legislature in its last session passed the legislation allowing us to license mortgage loan originators. It requires two FTE employees to accomplish that. That's kind of where the positions are going to go. [AGENCY 19]

SENATOR MELLO: Okay. And your conversation, just talking about the demands of your department and the narrow ability that you have to perform all those functions, how

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much funding currently is in the Securities Act Cash Fund? [AGENCY 19]

JOHN MUNN: Current balance today? [AGENCY 19]

SENATOR MELLO: Um-hum. [AGENCY 19]

JOHN MUNN: I know revenue for the year is scheduled to be about \$24 million.
[AGENCY 19]

SENATOR MELLO: Okay. [AGENCY 19]

JOHN MUNN: And I would guess a withdrawal was made I think maybe at the end of
September. [AGENCY 19]

SENATOR MELLO: Was that for this fiscal year? [AGENCY 19]

JOHN MUNN: Oh, yes. [AGENCY 19]

SENATOR MELLO: So how much did we take...do you know how much was...
[AGENCY 19]

JOHN MUNN: We were budgeted for this fiscal year to transfer \$20 million from the
Securities Act Cash Fund to the General Fund. [AGENCY 19]

SENATOR MELLO: Okay. [AGENCY 19]

JOHN MUNN: The Governor's recommendation would be to transfer an additional \$4
million this year. [AGENCY 19]

SENATOR MELLO: And would that deplete the entire cash fund, then, for the year if...

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[AGENCY 19]

JOHN MUNN: No. You know, it's always it never gets completely depleted. The withdrawals are timed so it won't.. [AGENCY 19]

SENATOR MELLO: Okay. So after we...if we enact the Governor's proposal to take the \$4 million there will be very little money, essentially, left then at the beginning of next fiscal year. [AGENCY 19]

JOHN MUNN: It will still be in the single digit millions, probably. [AGENCY 19]

SENATOR MELLO: Okay. That's helps out. Thanks so much. [AGENCY 19]

JOHN MUNN: You're welcome. [AGENCY 19]

SENATOR HEIDEMANN: Senator Nelson. [AGENCY 19]

SENATOR NELSON: Senator Mello anticipated all my questions, so thank you very much, Mr. Munn. [AGENCY 19]

SENATOR HEIDEMANN: Senator Fulton. [AGENCY 19]

SENATOR FULTON: Thank you, Mr. Chairman. Thank you, Director, for coming in. The...I'm trying to figure out how to word this. There have been...the banking industry, across the country, has taken a hit that doesn't seem to have afflicted Nebraska banks quite as badly. So Nebraska banks seem to have behaved more responsibly than maybe those on the coasts. That...could you comment as to how that has an effect on your ability to find these cuts, and secondly, is that something that we should be keeping an eye on as a committee, funding your department going forward? [AGENCY 19]

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JOHN MUNN: There's always a concern, although we've been much less impacted by many states, is there going to be more of a delayed reaction. The things we have going for us, number one, is agriculture. Right now, there are some sore spots in agriculture, but generally, crop production is going very well and our producers are doing it on production because of basically weather conditions. Secondly, the Fed is keeping interest rates artificially low. Low interest rates are good for agriculture. Thirdly, we did not have the terrific appreciation in real estate values, both residential and commercial, over the 2003-2006 time period. Consequently, there weren't a lot of heavy real estate loans made. Do we have a few banks with commercial real estate challenges? Yes. But pretty much limited to Lincoln and Omaha. And so looking ahead Senator, the thing I feel good about, we have been able to hire...I believe in the 2007 session the Legislature funded three new examiner positions, which will allow us to gain a little bit on the age curve of our examination force. So that when some of our examiners do begin...older examiners begin to retire, we will have replacements that have been out in the field already rather than hiring somebody brand new. [AGENCY 19]

SENATOR FULTON: Okay. Thank you. [AGENCY 19]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you for coming in today, John. [AGENCY 19]

JOHN MUNN: Thank you. [AGENCY 19]

SENATOR HEIDEMANN: Is anyone else wishing to testify on Agency 19? Seeing none, I will close the public hearing on Agency 19 and open up the public hearing on Agency 34, the Library Commission. Will there be anybody else testifying on the Library Commission, out of curiosity? Thank you. Welcome [AGENCY 19]

ROD WAGNER: (Exhibits 7 and 8) Good morning, Senators. Good morning, Mr.

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Chairman, members of the Appropriations Committee. I am Rod Wagner, director of the Nebraska Library Commission. Wagner is spelled W-a-g-n-e-r. I appreciate the opportunity to address the Governor's biennium budget recommendations. I want to refer back to a few items from the Library Commission's budget hearing held in March earlier this year. We indicated at that time that the Library Commission's priority was maintaining our staffing. That continues to be our priority. We'd like to do what we can under our reduced budget to maintain our staffing, so like others, we will make those reductions where necessary out of the portion of our operating budget where we can do that. However, a couple of things to take into account. The Library Commission's personnel budget and, in addition, the funding we use to house our facilities make up a substantial portion of our operating budget. You may recall that the commission requested additional funding for the biennium to cover an increase in our building lease costs. We're in a leased facility and we have a long-term lease arranged through the Department of Administrative Services, and there are scheduled annual increases. There were no additional funds appropriated for this purpose, so that's a constraint we have that I would note. We had also--I didn't make note of this in my document, but the Library Commission had made a request for the biennium to purchase memory cartridges for use with our new digital talking book players that are now being finally supplied by the Library of Congress to replace the cassette players that have been in use for many years. We had requested those funds because that's a new item of expenditure, a supply item that we need to use with that program. Funds were not appropriate for that purpose, but we have provided for purchase of some cartridges on a more limited basis. The reappropriation that we are projected to lose would have some effect on that. The other major program for the Library Commission is the State Aid to Libraries Program. I make note of that because there too we had indicated as a priority the state aid funds that we distribute to the six regional library systems. And the regional library systems do have a significant portion of their funding used for a full-time professional position and a part-time staff assistant position. So as funding reductions are made, that does have an effect on the regional library systems. I would mention that we have not had an increase in state funds for the state aid program in a number of

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years. Those funds were reduced during the 2001-2004 period when the state was going through a similar economic decline, and those funds have not been increased since that time. I did neglect to mention earlier on when I was talking about the priority for staffing, the Library Commission does have a vacant position, however this position has remained unfilled for at least a few years now because we've not had the funding to refill that position, though we have continued to keep that position as an authorized position. The Library Commission is the state agency that administers the federal Library Services and Technology Act program in Nebraska. Therefore, a portion of our funding, just under 30 percent, does come from the federal LSTA appropriation. By way of its assistance to us in our operations and aid program, that funding has also remained fairly flat. For the current year, we are not anticipating an increase. More likely, the funding for LSTA will remain about the same as for this past federal fiscal year that ended on September 30. There is a factor to point out in regard to the LSTA funding. States do have to meet a maintenance of effort provision for receiving LSTA funding. It's a little tricky to figure out, but I do include a statement there about how that is calculated. It takes into account prior year expenditures, in our case from state sources. We don't believe we would have a problem with that this current fiscal year, based on the Governor's recommendation. We're looking into whether it would be a factor for the coming fiscal year. But if that does fall below the maintenance of effort provision, there is a mechanism built into the program that provides for a proportionate reduction. It's not a matter of losing the whole program. But fortunately that's not something we've had to experience before, but I mention it because it is a factor for the federal funds. With that, I will stop and be pleased to reply to any questions you may have. [AGENCY 34]

SENATOR HARMS: Thank you, Mr. Wagner. Do we have any questions? You got off easy. Thank you very much for coming. We appreciate your testimony. [AGENCY 34]

ROD WAGNER: You bet. Thank you. [AGENCY 34]

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SENATOR HARMS: Do we have anyone else who would like to speak in favor of Agency 34? Then we will close the agency hearing for 34. We will open up the hearing, Agency 48, Coordinating Commission. Go ahead then. [AGENCY 34]

MARSHALL HILL: (Exhibit 9) Good morning, Senator Harms, members of the committee. My name is Marshall Hill. I am executive director of the Coordinating Commission for Postsecondary Education. We spend the majority of our time testifying at the Legislature in front of the Education Committee. So if you don't mind, I'll take just a moment to remind you of who we are and what we do. On the materials that are provided for you, there's a hand little tent card which on the inside summarizes our responsibilities. We printed those two years ago when we had some money, but we hope they're helpful to you, as well. First off, it's important to note that the Coordinating Commission is not a peculiar Nebraska invention. Forty-nine states have an agency like ours. The only state which does not is Michigan. What we do is mandated by the state's Constitution and the statutes, so we are a constitutional agency, put in the Constitution in 1991. We are a small agency. We have 13 staff. Since 1992, when we began, we have oscillated between 11 and 13.5 staff members. So we have never been any larger than we now are. And let me take just a moment to explain the ways that that impacts the work that we do. You'll note that the Constitution directs us to look at capital projects that the universities and state colleges propose, and the community colleges, as well, that would rely on tax funds. Of my 13 staff, I have one staff member who hospitalizes in that work. We're also directed to review proposed academic programs and existing academic programs. I have one staff member who does that. Both of those staff members do other things. We are charged to administer the state's financial aid programs. We do that and I have one staff member who does that. So the implications of losing staff are significantly different in a small agency like ours. Most of our sister agencies around the country are much, much larger. We indeed are the smallest agency that does what we do in the United States. So I'd like to directly speak to the proposed reductions that you have...for consideration from the Governor, and, first, look at proposed reductions to the financial aid programs. The largest financial aid program

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we administer is the Nebraska State Grant program. The average student grant for that is about \$868. To run that program, we receive \$6.7 million in state funds and about \$7 million in lottery proceeds. Students are already in school for this year. They are relying on those funds. We allocated those funds out to the institutions on the basis of how their students have accessed those funds in the past. I have provided for you a table which would indicate what would happen to those allocations were the reductions proposed made effective. The second point to make about those is those are our most needy students. Students cannot receive funds from the Nebraska State Grant unless they are Pell-eligible, which is the federal government's definition of our most needy students. All of our grant recipients are Pell-eligible. They attend public institutions and many of the private institutions in Nebraska. We rank thirty-seventh among the nation in the amount of need-based aid we provide per undergraduate student. A few years ago the Legislature approved the creation of a new program: the Access College Early Scholarship Program. Senator Harms sponsored that legislation. This program is to provide financial aid to needy high school students who take college classes. They are needy as defined by either being on free and reduced lunch or something similar. The feedback that we get on this program is superb and the outcomes are superb. These are students who are highly unlikely to be going onto college. But when identified in high school, given the opportunity to take college courses, as confirmed by two studies in other states, several very good things happen. Students who take dual enrollment courses stay in high school at higher rates. They graduate from high school at higher rates. They go to college at higher rates, and they return for their sophomore years at higher rates. We have validated all of those things for this program in Nebraska. Indeed, this group of students whom we would expect to go to college at only about a 50 percent rate, are our highest college-going-rate students. Eighty-eight percent of the students who have received these funds, which average about \$225 a student, are going on to college. And their grades are good. They're doing well. So we would encourage you to, as you make your deliberations, consider the comments made by President Milliken this morning, and I'm sure will be echoed by other higher education representatives. This is aid which goes directly to students to help them pay their

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college expenses. College expenses are likely to increase. Tuition rates are likely to increase. Hurting students at the same time would be a double whammy, and we encourage you to try to avoid doing that if possible. In terms of our proposed reductions to administration, we have already made a lot of changes to our operations. We are one of the agencies which last year did not receive additional funds for the biennium. What that has meant for a small agency like ours is absolutely no hope of salary increases for our already overworked staff. We won't have salary increases for two years. We have cut our staff and commissioner travel to the bone. We are likely to have to reduce the number of commission meetings held, and we've already changed the locations. We have tried to hold meetings frequently throughout the state. It's important for the commissioners to not just stay in Lincoln or Omaha, but to go to Chadron occasionally or to Scottsbluff or to Grand Island, or so forth. We're going to find it almost impossible to do that in the future. We've already made many deductions to that. We're stretching out our computer and printer replacement schedules, and so forth, and we had plans to very carefully steward the carryover funds that you had allowed. One additional factor for us is the Legislature, last June, directed the Coordinating Commission to take a serious and thorough look at Nebraska's community colleges. LB340 directs us to do that. We initially turned in a fiscal note to hire additional expertise for that, close to \$100,000. As the bill went through, we received no additional funds to do this report. We will have some direct costs. We are incurring those as we go. We will incur more of them as we go along. If you would allow us to keep our reappropriated funds, that would cover the direct expenses that we are incurring for LB340. As I mentioned, if the proposed reductions are indeed made over the current fiscal year and the next, we will reduce commission meetings, have them closer to Lincoln, squeeze any possible remaining drops out of the turnip of our operating budget. We will do everything humanly possible to avoid laying off staff for the reasons I mentioned earlier. That will mean we will have to consider anything and everything to avoid that: total staff reductions of salary for all staff, furlough days, etcetera. I'll finish with one specific request. The Governor's proposed reductions to our operating budget, the 2.5 percent across-the-board reductions are made on a base which includes the state's dues to the

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Midwestern Higher Education Compact. The Midwestern Higher Education Compact is one of four regional organizations in the United States. Nebraska is a member. Our principal benefit for that is cost savings for our colleges, universities, and state and local governments. We pay \$95,000 a year for that. Nebraska's entities save about \$4.5 million on the basis of that investment. We have already paid that for the state as a whole, and yet that is counted as part of the base which is proposed for reduction. So we would ask that any reductions you would make to our base, that you would extract those funds for MHEC before doing that. I'd be pleased to respond to any questions you might have. [AGENCY 48]

SENATOR HARMS: First of all, thank you very much for coming Dr. Hill, and testifying. Appreciate it. Senator Mello. [AGENCY 48]

SENATOR MELLO: Thank you, Chairman Harms. Dr. Hill, I've got a couple questions. First, looking at this Nebraska State Grant Allocations sheet that you gave us with the proposed reductions for the scholarship program, this says private career colleges. And surprisingly, there's some fairly large numbers of scholarship dollars that go to these private career colleges. Are those for-profit institutions? [AGENCY 48]

MARSHALL HILL: Yes, they are. [AGENCY 48]

SENATOR MELLO: So for a matter of public policy discussion, I should say, the state of Nebraska is subsidizing for-profit colleges, for an example, Kaplan University is receiving as much money if not more than Metropolitan Community College and almost as much as Southeast Community College. Is that an issue that has been discussed before with the commission, or at least within the public policy realm at the Legislature? [AGENCY 48]

MARSHALL HILL: It certainly has, and let me say two things about that. First, the funds go to the students who attend those institutions. The funds do not go directly to the

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institutions. The Legislature, in making adjustments to the Nebraska method of providing financial aid, several years ago eliminated two other programs and consolidated into one financial program. And the principal philosophy behind the Legislature's decision would be that the Legislature would decide how much money to provide. The students would decide where to do. So the students choose to attend different institutions, and therefore, then become eligible for the Nebraska State Grant program. [AGENCY 48]

SENATOR MELLO: Now are these private career colleges, are they accredited in a very similar way that our state colleges might be and community colleges might be, so that degrees, so to speak, if the state is investing dollars in students to receive diplomas and/or certifications, that those diplomas and certifications are transferable to the Nebraska community college, state college, and university system? [AGENCY 48]

MARSHALL HILL: The general answer is yes. All are accredited by bodies recognized by the United States Department of Education as being reputable and responsible creditors. Some are regionally accredited. Some are accredited by national organizations. This is the fastest growing segment of higher education in the United States. There are lots of questions about the appropriateness of that. Basically they serve a different student base. For example, African-American students in Nebraska, public institutions make up about 5 percent or so of student bodies. In the career schools, they make up 20 percent of the student bodies. You could ask, does that mean that they are paying attention to a group of students who are not being well served by others, or is there some attempt to enroll those students to get their financial aid dollars? Personally, I think that the truth is far closer to the former than the latter. The students who attend these institutions have quite high graduation rates, quite high placement rates. For the majority of them, for the majority of programs, much of what the students do can be transferred to other institutions, although it's always at the discretion of a receiving institution as to whether or not they wish to accept the credit. And that's frankly the same for a student transferring from Creighton to UNL. [AGENCY

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48]

SENATOR MELLO: I guess a follow-up question would be then...and I don't want to leave some of the larger independent colleges out, such as Creighton or Bellevue University or Dana or Doane. How many of these private college, career colleges then...I mean, how much of their academic work then transfers to these independent colleges and/or our public higher education system? [AGENCY 48]

MARSHALL HILL: Not a great deal, because largely what the...with a few exceptions, with notably Kaplan, to a lesser extent Vatterott and ITT, most of the programs in these career schools are short-term programs. They're one-year or two-year programs, at a maximum. Many are shorter than that--credential programs--that students take. So students who are intending to transfer to UNL or intending to transfer to Doane, by and large do not start in the career schools anyway. [AGENCY 48]

SENATOR MELLO: We can talk off the mike a little bit more, and I probably might just want to follow up with you to learn more about this, because it's a bit alarming that a serious amount of money is going to private schools that are for profit institutions, where your testimony just said that most of these students' academic work does not transfer to our existing higher education structure. [AGENCY 48]

MARSHALL HILL: Yes, sir. And that is mainly because of the types of programs they are. [AGENCY 48]

SENATOR MELLO: So are they proprietary academic programs through these private for-profit schools? [AGENCY 48]

MARSHALL HILL: No but they are mainly vocationally oriented programs. I think the majority of the students who are taking those programs, if they were to seek transfer to the community colleges, they would have quite good success at that. [AGENCY 48]

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SENATOR MELLO: Does the Coordinating Commission oversee that, then, the academic transfer from a Vatterott College to a Western Nebraska Community College? [AGENCY 48]

MARSHALL HILL: No, sir. We don't have the authority to do that. But I'd be pleased to discuss this general issue with you at any time. [AGENCY 48]

SENATOR MELLO: Absolutely. One final question then, dealing more with the Access College Early Program. What...I know this was in a bill that Senator Harms introduced and passed in, I think, 2008. With the cut that is being proposed, I know it's not a significant of a cut, but how many students would be impacted by that specific cut to that program? And I saw your handout you provided us for the scholarships that are awarded to high schools. [AGENCY 48]

MARSHALL HILL: Right. This year's proposed cut would allow us to serve about 26 fewer students. Next year's proposed cut would allow us to serve about 88 fewer students. That's presuming the average cost per serve is the same. [AGENCY 48]

SENATOR MELLO: Okay. [AGENCY 48]

MARSHALL HILL: Not large numbers, but once again I emphasize that these are students who, if they were attending a postsecondary institution, they would automatically qualify for financial aid. Because they are high school students, there is no support for them other than what an individual college may choose to offer, what their local school may choose to provide, or whatever. We had a financial aid program which, frankly, was not working. We were unable to give away the funds because of the restrictions upon it, and Senator Harms was helpful in helping eliminate that program and start this one. We feel it's exactly the right thing to do to reach the students who are otherwise likely to be lost to postsecondary education opportunities. [AGENCY 48]

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SENATOR MELLO: I would share your sentiment, Dr. Hill, in regards to this program. Dual enrollment is the way of the future, and am glad that my colleague Senator Harms saw that a couple years ago in regards to promoting that program. One last question that I did ask the university and I will ask the State College System, as well. Knowing that the state is heading towards close to a \$600 million deficit in 2011, and I know the conversations in Appropriations Committee, as well as other members of the Legislature have yielded the need for more innovation and more streamlining of government. Do you see any potential cost savings or efficiency savings with a merger of the State Colleges System with the University of Nebraska system? [AGENCY 48]

MARSHALL HILL: I did hear you ask President Milliken that question and I'm not surprised to get it. It's a reasonable question to ask, an entirely reasonable question to ask. And I'm going to give you my answer and not my commission's answer. My commission has not considered this. I tend to believe they would agree with what I'm going to say but this is my answer. The general operating budget for the Nebraska state colleges central administration is about \$1.3 million a year. I think it's possible that some savings in administrative costs could be obtained with that. A relatively minor amount, though, however, in the roughly \$600 million or so of state aid to higher education. The problem is not in absorbing the 8,600 students that the Nebraska state colleges have into NU's 48,000. It's absorbing three institutions which have different roles and missions, which serve a different clientele of students, which have different entrance requirements, different tuition rates, markedly different faculty roles in that the state colleges maintain a principal focus on teaching and learning and a significantly less focus on research than does the university, and especially its larger campuses. So there are widely different faculty roles. Very widely different faculty salaries. I mean, the scale of faculty salaries from Peru State College to the Medical Center is...it's got to 4 or 5, to 1, at least. Secondly, another thought. The state of Vermont recently looked at this issue for their colleges, considering whether they should consolidate three or four small state colleges into the University of Vermont. The legislature looked at this through a

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special committee. They concluded, just a couple of weeks ago, that the likely gains were not either worth the effort or the angst, the disjunctures that would be caused to students and faculty. Finally, two final points. I've been working in statewide higher ed for about 15 years. Consolidation and shifting apart are always topics for consideration. I really have yet to see an example of cost savings coming about on a long-term basis through consolidation, particularly when there are markedly different missions of the institutions that are proposed for consolidation. Final point, something you perhaps already know, is that kind of governance change would require not only statutory change but changes to the Nebraska Constitution, as well. [AGENCY 48]

SENATOR MELLO: Thank you. [AGENCY 48]

MARSHALL HILL: You're welcome. [AGENCY 48]

SENATOR HEIDEMANN: Thank you very much. Are there...? Senator Harms.
[AGENCY 48]

SENATOR HARMS: Thank you, Dr. Hill. I just have a couple things. I am disturbed a little bit by the removal of any money for scholarships. This is a time where this great state and nation is in a crisis, and more and more students coming out of high school are choosing to go on to college. But more importantly, you have a lot of adults who have been laid off. Adults who are saying, you know, what? We have to go back to school, we have to get a new skill to prepare ourselves for the new world's global economy. I used to say they went into higher education to hide out for awhile, to hope that by the time they get through they'll have a new skill and can be marketable. And the fact is that federal aid is going to become more difficult for us. It's going to get tighter. So I really have some concerns about that aspect of it and I worry a little bit about it. The early access, as we both know, scholarship program really helps a lot of kids who come from disadvantaged families who don't have any support at all from home, because lots of times the parents don't understand what it takes to get through college,

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and the child may be the first one to ever hit the doorways of institutions of higher education. And this really gives them the opportunity to do that, and I would be in hopes that my colleagues would agree there would be some way we could find some solutions to that so that we don't lose those young men and women to higher education. The other factor I would say in regard to mergers, I've been fortunate enough--maybe not fortunate enough because it's painful--to bring institutions together. And I will tell you, there are no savings at the front end, but long term I would debate that there is savings, because you have to bring everybody onto the same computer system. And some of that may already is being doing by the state colleges. You have to bring everything down to a level where you can make that merger. But I think if you studied it longer enough, you'll find that there are opportunities there. And when I look at the state colleges, I'm a product of the state college system. I don't think their mission is too far away. I mean, when you look at the academic world and look at the freshmen through the senior year, they're basically the same. Where the separation becomes is the master's and even the graduate level. So I would debate that with you, but maybe some other time in another world. So thank you very much. [AGENCY 48]

MARSHALL HILL: I would be glad to at any time. [AGENCY 48]

SENATOR HARMS: Yes. [AGENCY 48]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you. [AGENCY 48]

MARSHALL HILL: Thank you. [AGENCY 48]

SENATOR HEIDEMANN: Is there anyone else wishing to testify on Agency 48? [AGENCY 48]

TIP O'NEILL: Thank you, Senator Heidemann, members of the Appropriations

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Committee. I'm sure I'm the...I'm surprised you didn't start me out with the yellow light. I'm Tip O'Neill, president of the Association of Independent Colleges and Universities of Nebraska. I now represent 15 privately controlled nonprofit institutions. The Bryan College...BryanLGH College of Health Sciences is now one of our additional members, since they have gone through the regional accreditation process. Just wanted to talk a little bit about student financial aid. It's certainly important to students who attend independent colleges and universities. It is the only program that benefits those students who do attend the institutions that I represent. We award about 41 percent of the bachelor's degrees in Nebraska. We award, for example, more degrees to minority students than the University of Nebraska system. We award more degrees to African-American students than the University of Nebraska and the state colleges combined. And so for that we receive from the state approximately three-tenths of 1 percent of the state appropriations for higher education, which is down from seven-tenths of 1 percent back in 2003. One of the programs that Marshall Hill talked about was eliminated in 2003, the PEAP program, the Postsecondary Education Award Program. And our student financial funds, compared with I think our high water mark of '01-02 are down 29 percent since that time. And it is reflected in terms of our enrollment. Our freshmen enrollment, first time freshmen, is down 13 percent between the fall of '03 and the fall of '08. While the University of Nebraska, in that particular time, with that cohort of students, is up 11 percent. And if you think about what the state investment for degree is, in the independent sector it's about somewhere in the neighborhood of \$350 to \$400 per degree. If you compare that investment per degree at the state level of a \$25,000 or \$30,000 investment per degree, I think you as the Appropriations Committee can see that if we have policies that benefit students in the public sector even more than they do giving some incentives to students to go to a private sector institution, you have to build additional infrastructure in the public sector. The state taxpayer is going to pay more. Anyway, I'd hope you would consider, as Senator Harms said, not cutting the student aid part of the budget. It is important and there are a lot of students who are out there who are needy. I'd be happy to answer any of your questions. [AGENCY 48]

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SENATOR HEIDEMANN: Are there any questions? Seeing none, thank you. [AGENCY 48]

TIP O'NEILL: Thank you. [AGENCY 48]

RON WITHEM: Senator Heidemann, members of the Appropriations Committee, I'm Ron Withem. That's spelled W-i-t-h-e-m. I'm the lobbyist for the University of Nebraska here simply to make a presence at this particular hearing where it's appropriate to talk about student financial aid, to indicate that the University of Nebraska appreciates what the state does in student financial aid for our students, and we'd urge you to be as protective as you can. I think between Senator Harms's eloquent comment a few moments ago and comments President Milliken made earlier today, the record has been made. I just wanted to put myself on notice at this time. [AGENCY 48]

SENATOR HEIDEMANN: Thank you for coming in and keeping it brief. Any questions? Seeing none, thank you. [AGENCY 48]

RON WITHEM: Thank you. [AGENCY 48]

SENATOR HEIDEMANN: Is anyone else wishing to testify on Agency 48? Seeing none, we will close the public hearing on Agency 48 and open up the public hearing on Agency 50, the Nebraska State College System. [AGENCY 48]

STAN CARPENTER: Good afternoon. [AGENCY 50]

SENATOR HEIDEMANN: Lunchtime. [AGENCY 50]

STAN CARPENTER: (Exhibit 10) I'm sorry to say that, so I'll go as quick as can. Senator Heidemann, members of the committee, my name is Stan Carpenter, S-t-a-n C-a-r-p-e-n-t-e-r, and I am the chancellor of the Nebraska State College System, and I

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appreciate the opportunity and come and chat with you for just a few moments this morning. We, like the university and others who have come before you today, do recognize completely and fully that we need to be part of the solution to this difficult financial crisis in which the state finds itself. And we will do so. It's not easy. It's not particularly enjoyable, but we understand what our role is and we will do all that we can to help the state out of this circumstance. You will remember last year that this committee and the Legislature and the Governor approved a 1.5 percent general operating fund increase for us for each year of the biennium. And we were very appreciative of that then; we're appreciative of it now. We recognize that that was very difficult to do, even in those challenging economic times, I guess not quite that long ago now. But as a result of that, we went to our board, and the board recognized that our students could not afford a huge tuition increase to cover all of our operating costs, and so we increased tuition by 5 percent last year. We have two basic sources of income: general appropriation and our students. And so the board was quite clear to us in its discussions that we were not going to balance our budget on the backs of our students. We did that back in the early '80s...or the early 2000s. We did it in the early '80s, too, in Vermont when I was there. But we did it in the early 2000s, with a 14 percent increase one year and a 9.5 percent increase another year. And the board recognized and we all recognized this was not the time to ask our students to step up to that challenge. Our focus is on access, making sure that Nebraskans can come to our institutions and afford the high quality education that we provide them. With that in mind, last year we adopted something called the NSC Advantage Program. And what that says, starting with the freshmen this year, and then continuing on for years to come then, is that any student who is Pell-eligible, who attends our institutions, will pay no tuition at our institutions. We also have signed up to be part of the GI Bill Yellow Ribbon Program. And our participation in that, unlike some others, is that any eligible veteran who comes to our institutions will be assured of paying no tuition and not fees at the Nebraska state colleges. Now as I said, even before, with our tuition increase and our increase from the Legislature, we were not able to balance our budget. So as you see with the information that I just passed out to you, for this year we had to reduce our budget, our core

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operating costs by \$2.5 million, and we did that. Next year, because of the same circumstances, we will have to reduce our operating budget by an additional \$1.5 million. Those are significant, significant funds to us. Through the reduction process, for this year alone, we've eliminated 30 positions across the Nebraska State College System, either through attrition or through layoff, and that includes faculty and professional staff, and support staff as well. Obviously, we will have to do the same for next year for the additional \$1.5 million that we have to reduce our operating budgets. And as you probably know, we are still in collective bargaining, if you will, at some level with our faculty union. And the difference between the faculty's position, which has been sustained by the Commission of Industrial Relations, and our last offer, is an additional million dollars over the course of the biennium, and another million dollars every year thereafter. We have that case appealed to the Nebraska Court of Appeals, and we are hopeful that we will be successful because we believe we have the right position there. But we don't know that. So that's another challenge that we have to think about in the future. Additionally, as you know, we have just moved from the NIS system to the SAP system for our financial operations. That went live in July. We are in the process of bringing modules, if you will, live on the new Nebraska Student Information System. Hopefully, by next year at this time, that will be completely up and running, and we appreciate the support that you all gave us for the one-time costs to implement those new computing systems. That does not, however, include the increases in our operating costs for those new systems. In September, the board passed a resolution directing us to file a request for a deficit request with the Legislature this year in the amount of about \$750,000. That was before we understood the depth of the fiscal woes that the state faced. And as a result of that, I talked with all board members after that action, and we will not be coming forward with the \$750,000 request this year. If times get good again, as I suspect they will at some point, you can expect to see us back for that, but we will find some way, in the short term, to cover those costs as well. We have three unions and the Nebraska State College System: faculty, support staff, and profession staff. They all have contracts. They all have rules and regulations about how we can lay people off, notice provisions, and so on and so forth. And so we can't, for the most part,

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just turn on a dime and reduce our work force, nor would we want to do that without some serious planning. That's what we did last year. We planned well ahead of time, knowing that this was coming. So the fact that you all agreed to, and the Governor agreed to allow us to keep our reappropriations, will help us this year, get through this year as we begin to plan for next and beyond, because we understand that by the end of the biennium we are going to have to reduce our operating budgets by the \$1.6 million that the Governor's recommendation includes for us. So we will be part of the solution. I want to tell you that we will do everything that we can to do that. While an additional \$1.6 million reduction to our base is going to be difficult on top of what we've already done, we will find a way to do that. Anything beyond that would be substantially detrimental to the operations of the State College System and to the almost 9,000 students that we serve. And with that, I'd be happy to answer any questions you might have. [AGENCY 50]

SENATOR HEIDEMANN: ~har.c [AGENCY 50]

SENATOR HARMS: Just a couple short questions. First of all, thank you for what you do in our great state and the students that you serve. My question is, if we adopt these cuts that the Governor recommended, will we see an erosion in the services to students? Because that's what, to me, this is about, is erosion of the services to students, such as the testing, the counseling, the advising, just at the front end. And then you get into the instructional side. And that's what we're about and that's what you should...I know that's what you're about. What are your thoughts about this? [AGENCY 50]

STAN CARPENTER: Well, Senator it's going to be very difficult for us not to have some effect on students with these cuts. But let me say that we will do everything we can to protect our core mission. And our core mission is to provide access to higher education for our students, for students who oftentimes don't think about coming to college until well late into their high school career. We are colleges of opportunity, as you know, and

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students come to us. As long as they have graduated from an institution and an accredited high school in this state, we admit them. Therefore, we know we have a lot of work to do with a lot of students. At Peru State College, we now have the Center for Academic Transfer, a program that used to be the CATS Building, where we do a tremendous amount of tutoring and advising. We do the same thing at Chadron, and at Wayne as well, so we have to protect those core services to make sure that our students have the best chance to succeed, those students who are most at risk. But those are the students we know we can reach and what we provide to them is a transformative experience for themselves and their families. So we will do everything we can to protect those services and to protect our core mission of teaching, because we are teaching institutions. [AGENCY 50]

SENATOR HARMS: Do you have a long-range plan that you could use to help you take a look at the reductions, and also that would make sure that the core is not penetrated too deeply as far as the system is concerned? [AGENCY 50]

STAN CARPENTER: The system does have a long-range plan that was just revisited for the second time, about two years ago now, and that does serve as a template for us. Each of the institutions also has a strategic plan that is compatible with that system plan, and we look at that as a way to manage ourselves on a day-to-day basis, and we look at that as a way to direct us and guide us as we make these most difficult cuts. [AGENCY 50]

SENATOR HARMS: Well, I guess as I look at this my concerns is, as the further west you go and the further deep you get into rural Nebraska, it's extremely important that we keep, for example, Chadron State College strong because that's where a majority of people go. We have a lot of young married couples who have families that that's their only hope. They can't uproot their families. They can't move their family. They can't afford to do that. That's why it's so important to have a strong higher educational system in rural Nebraska because without it we won't survive the future. We cannot be

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competitive in a changing world global economy. And it fits in very strongly. So I just don't want to...I just want to make sure we're not allowing the base to be eroded not only in your institutions, but the community colleges and the university because that's our only hope to get out of this by having an educational work force that is prepared to be competitive in a changing global economy. [AGENCY 50]

STAN CARPENTER: Sure. Senator, I couldn't agree more. And one of the things that I say when I get a chance to go out and speak to various senator groups is that the Nebraska state colleges, I believe, anchor rural Nebraska, from southeast Nebraska to northwest Nebraska to northeast Nebraska. Without those institutions--and these are regional institutions for our state--those regions will suffer tremendously not only educationally but economically, and we will not maintain rural Nebraska at least in any reasonable shape or form. I believe these institutions are allowed to wither. [AGENCY 50]

SENATOR HARMS: Yeah. One of the mistakes that we make when we start doing the evaluations are, well, we can do a lot of this over the Web. It just doesn't work that well. There are a lot of adults who kind of make that adjustment to the Web, and the structure and the system, they need a classroom environment. Are you agreeable with that or... [AGENCY 50]

STAN CARPENTER: Absolutely. I agree with that. And there are a lot of students who are successful, though, using the Internet. Peru State College is a leader in that in this state, and the other two institutions, Chadron and Wayne, are quickly catching up with that. I fits right in with our access mission because there are some folks who are place-bound for whatever reason, whether they're on a farm, whether they're taking care of their parents, whether they're taking care of their parents and their children, whether they're in Iraq or Afghanistan because we serve service men and women there as well. So the combination of services that we provide both on campus and through the Internet is very important to us. [AGENCY 50]

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SENATOR HARMS: Thank you. Thank you, Mr. Chairman. [AGENCY 50]

SENATOR HEIDEMANN: Senator Mello. [AGENCY 50]

SENATOR MELLO: Thank you, Mr. Chairman, and thank you, Chancellor Carpenter. Two questions. One...similar questions I asked the university system as well, did the state college receive any stimulus money? I know that most of the general stabilization dollars and all of it went to the Department of Corrections. Was there any funding that came through our budget last year that was marked as ARRA funding dollars that went to the State College System? [AGENCY 50]

STAN CARPENTER: No, Senator, there were no funds that came to us through the stimulus money. [AGENCY 50]

SENATOR MELLO: Okay. Thank you. Second question or last question, so to speak, I've asked both the University of Nebraska as well as the Coordinating Commission for Postsecondary Education. I'll ask you the same question. Do you think there is any cost savings potential with a merger with the State College System and the University of Nebraska system knowing the state's long-term financial challenges in the next couple of years? [AGENCY 50]

STAN CARPENTER: Senator, the short answer to that question is, no, I don't believe there are any. And let me just expound on that for a moment. Number one, the cost savings that you might be able to look at here would be the system office, our office. We're a small system office, there are nine of us, the smallest system office in the nation. There's not any job in that office, save mine perhaps, that wouldn't have to be done if there was a joining or a unification with the university. I presume, and I think safely, that the folks at Varner Hall are working to the max. The folks in my office are working to the max. There are things there that have to be done. They can't be done...if

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they're not done, there are lots and lots of problems that can ensue. So I don't think there's any short-term savings, and I think in the long term there is a real potential, good potential for cost increases. I think history shows us that in this state. I think the nature of the difference between our institutions--and Senator Harms and I might differ about this, but--are significant. We are a college of opportunity. We are teaching institutions. We are not research-based institutions. We expect our faculty to teach 12 hours a semester and have many more contact hours every semester. We expect them to do research, to keep current in their field, we expect them to do research with students to help them in their education, but not original research. We are rurally based; we're not urban based. Our faculty salaries are considerably less than anywhere across the University of Nebraska system as well. So I think there would be great potential for cost increases. I think there would be great potential for lack of efficiency. I think we're a very efficiently run system at this point. And I think overall it would not be in the best interest of our students, and that really should be the bottom line in this. And I recognize that the state is in a very difficult financial circumstance. I would admit to that freely. But I don't think that would be the answer to the state's difficulties at this point. I don't think it would be...it would serve our 9,000 students well at all nor do I think it would serve rural Nebraska well. [AGENCY 50]

SENATOR MELLO: Thank you, Chancellor. [AGENCY 50]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 50]

SENATOR WIGHTMAN: Thank you, Mr. Chairman. Thank you, Mr. Carpenter,...
[AGENCY 50]

STAN CARPENTER: Yes, sir. [AGENCY 50]

SENATOR WIGHTMAN: ...for the good testimony you've given. Can you tell me out of the 50 states, how many states have a single system as perhaps is being suggested by

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Senator Mello? [AGENCY 50]

STAN CARPENTER: Senator, I don't know the answer to that question. I don't know if...Marshall, do you know? I'll turn to my colleague, if he happens to know. [AGENCY 50]

MARSHALL HILL: Senator, it depends on... [AGENCY 50]

SENATOR HEIDEMANN: Can you come up and identify yourself and then... [AGENCY 50]

STAN CARPENTER: I'm sorry. [AGENCY 50]

MARSHALL HILL: Marshall Hill, Executive Director of the Coordinating Commission. It depends on the niceties of definitions. Only some very small states have a single unified board for all of higher education. And those have been fairly recent advances, and mostly they have come about because of political reasons. Florida is a good case in point. Their board came about because the legislature wanted to start a new medical school and the statewide coordinating board did not think it was necessary, and the legislature won, (laugh) and the coordinating legislatures usually win on things like that. So there are very few. Let me look into the exact number and get it back to you. [AGENCY 50]

SENATOR WIGHTMAN: Now, you mentioned Florida, they have a single system. You'd said it was very small states, but obviously that's not a very small population. [AGENCY 50]

MARSHALL HILL: No, it's not a small population. Until very recently, only two states have attempted to do all of education under a single board, and those have been the markedly different states of Idaho and New York. But that's what the official structure

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looks like on paper, but in actuality they were two entirely separate agencies that were totally... [AGENCY 50]

SENATOR WIGHTMAN: And you mentioned Maine earlier, I think, which would be a small population. [AGENCY 50]

MARSHALL HILL: Yes, it is, very small. [AGENCY 50]

SENATOR WIGHTMAN: And they rejected the idea. [AGENCY 50]

MARSHALL HILL: I mentioned Vermont. [AGENCY 50]

SENATOR WIGHTMAN: Oh, Vermont. [AGENCY 50]

MARSHALL HILL: I mentioned Vermont. Vermont has the University of Vermont and several small state colleges, five or so. And they were considering consolidating four within. [AGENCY 50]

SENATOR WIGHTMAN: Thank you. [AGENCY 50]

MARSHALL HILL: I'd be pleased to do a little more research on that and get it back to you, Senator. [AGENCY 50]

SENATOR WIGHTMAN: Thank you. [AGENCY 50]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you for coming in today. [AGENCY 50]

STAN CARPENTER: Thank you very much. [AGENCY 50]

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SENATOR HEIDEMANN: Is there anyone else wishing to testify on Agency 50, the Nebraska State College System? Seeing none, we will close the public hearing on Agency 50, and open up the public hearing on Agency 83, the Community Colleges. [AGENCY 50]

DENNIS BAACK: Senator Heidemann and members of the Appropriations Committee, for the record, my name is Dennis Baack, B-a-a-c-k. I'm the Executive Director of Nebraska Community College Association, representing the five community colleges who are members of my association. We fully realize the situation that the Legislature and the state finds themselves with the economy the way it is and what's happening with revenues in the state, and we certainly do want to be part of the solution, too, to getting this resolved. There has been a lot of debate about how the cut was going to come down on community colleges and how we ought to deal with that cut because once you...when you look at the formula, divides up the money in this state, the amount of dollars that the state puts into our formula automatically regulates what the local effort rate or the property tax rate is locally. And when you go into the middle of the year and you make a cut in the midyear, you are going to change that local effort rate, you're going to change a number of things within our formula. One of the concerns that we had was that you might put...one of the colleges, you might put them out of compliance with the law because you can be 20 percent below or 20 percent above this local effort rate. Well, when you lower the amount of state money, the local effort rate automatically goes up. We have one college that's sitting almost exactly 20 percent below the current local effort rate. So if you raise that local effort rate, they're going to be out of compliance with the law and there's some penalties for that if they do that. So we had talked about this. The early decision was is that we would go with putting all of our cut into the second year, take the total and just put all of the cut into the second year, and that's where we were settled on until Friday afternoon when it was discovered that that would not work. The problem is, is that when you do that, if you take that cut all in the second year, you put the state out of compliance with the stimulus and the ARRA funding. Because the higher education did not receive any of those funds, but if you put us below the level of

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funding for 2008, then we automatically qualify for those funds. You'd have to start taking money back from K-12 education, doing all kinds of things to make this work. So what we've decided on and what we're more than willing to do is we're going to take the cuts exactly the same as everyone, the 1.8 percent in the first year, 3.4 percent the next year. If there is a problem with the college that there may be some small penalty for, Senator Adams and I will be working together to try to figure out a solution so that that penalty does not come about, and it wouldn't come about until the next year anyway. So I think we can resolve that in the regular session, so it wouldn't happen until then, so. So we're willing to do that, and I've talked to the president of that college. He's fine with that, and we'll get that worked out for in the future, so. I do want to express to you how much we, the college that I represent, really do appreciate the support that the Legislature has given both fundingwise and otherwise to the community colleges in Nebraska. And quite frankly to deal with the budget cuts, you know, it's a little difficult at this time because we're really growing. I think that the lowest college I see right now of growth is 8 percent across the state; the rest of them are all right at double-digit growth. So we're experiencing some tremendous growth, and that's only very, very common. When we have a down economy, our enrollments tend to go up because you have people who are losing jobs or looking for better jobs and are coming back to get some skills and stuff to do that, and they come to the community colleges to do that. So our enrollments are doing very, very well across the state. That helps us a little bit because we're getting some more tuition money and stuff. But it also...at some of the colleges, the growth has required them to hire more faculty, quite frankly, they've just had to do it because they have more people involved. And some of them are using adjuncts, which is a little bit less expensive to do. The other colleges...the colleges are also being very frugal. I told them already a year ago that we needed to be really, really careful about our spending because I think...you know, you could see some of this may come to Nebraska eventually. So they have been. I think they've cut travel expenses, all the other kinds of expenses that they can cut. We're constantly reviewing our program to see if any of those needs to be cut and we can eliminate some of those kind of things, the ones that aren't being very productive, so. We are in the process of doing all of

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those. And with that, I'd be happy to answer questions if there are any. [AGENCY 83]

SENATOR HEIDEMANN: Anybody have any questions? Senator Hansen. [AGENCY 83]

SENATOR HANSEN: Thank you. Dennis, the big approval in your admonishment to all the community colleges a year ago was very appropriate. But now you find yourself into a lawsuit which is going to be expensive for all community colleges. How do you view that in the budgeting process? [AGENCY 83]

DENNIS BAACK: Well, I mean to me it's an unfortunate circumstance that we're simply going to have to deal with it. And I don't know what the costs are going to be. I don't even know what the lawsuit looks like yet, so I don't know, you know, how extensive it's going to be. I don't know exactly who's involved in the lawsuit yet because I haven't seen it yet. So I don't know. But, yes, it's certainly going to create another expense for the colleges to deal with. [AGENCY 83]

SENATOR HANSEN: I better leave it right there. Thank you. [AGENCY 83]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you. Is there anyone else wishing to testify on Agency 83? [AGENCY 83]

RANDY SCHMAILZL: (Exhibit 11) Good afternoon. Randy Schmailzl, president Metropolitan Community College, S-c-h-m-a-i-l-z-l. Good afternoon, Chair Heidemann and the committee. I'm here today to testify on behalf of the Governor's recommendation of 1.8 percent in community college aid. Metro has no problems with the 1.8 percent. I'm here to present in the handout ideas on the calculation and how to reduce the community college formula by 1.8 percent. The first category table base information is the results of this year's formula. And the results of this year's formula and division of the money shows Southeast Community College with a 45 percent increase,

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and on the downside, Metro with a 20 percent decrease, and Central with a 20 percent decrease...28 percent decrease. When the Legislature was in session, Metro recommended through LB action a zero percent increase in the community college funding formula, where the state community college system of the other five colleges represented...supported a \$10 million to \$11 million increase. It was our understanding at that time that the economics of the situation was not going to support an increase, in fact, it was going to in time support a decrease, which is where we're at today. The first table A shows those colleges that received an increase. They would be the ones to receive a decrease. Mr. Baack presented the fact that we do have a community college in this state that's close to the 20 percent. And in this case, the 87 percent of the appropriation would come from Southeast's \$8 million increase. That would be something that would be a little harder to do. Our recommendation for Metro is an across the board cut of 1.8 percent. In the funding formula, each community college receives about \$6 million on the basis of being a community college. And we support a \$265,000 reduction for each college across the board where everybody shares the cut equally at 1.8 percent. If you go to the bottom of the page and look at table D, you'll notice that that's the reduction in state aid if you use the current funding formula. If you use the current funding formula, Metro will receive the largest increase...decrease of 36 percent of the estimated 1.8 percent reduction, and Western receives a 5 percent reduction. I'm here today to discuss just that topic. And with that, I'd like to stop.
[AGENCY 83]

SENATOR HEIDEMANN: Are there any questions? Seeing none, thank you for coming in today. Is anyone else wishing to testify on Agency 83? Seeing none, we will close the public hearing on Agency 83, and that's it for this morning or this morning-this afternoon session (laugh). [AGENCY 83]