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Appropriations Committee
January 30, 2014

[LB678 LB848 LB974]

The Committee on Appropriations met at 1:30 p.m. on Thursday, January 30, 2014, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB974, LB678, and LB848. Senators present: Heath Mello, Chairperson; John Harms, Vice Chairperson; Kate Bolz; Danielle Conrad; Bill Kintner; Tyson Larson; John Nelson; Jeremy Nordquist; and John Wightman. Senators absent: None.

SENATOR MELLO: Good afternoon and welcome to the Appropriations Committee. My name is Heath Mello. I'm from south Omaha, representing the 5th Legislative District, and am Chair of the Appropriations Committee. I'd like to start off by having members do self-introductions starting with Senator Kintner, who will be joining us later. Senator Kintner represents Legislative District 2 which incorporates Sarpy, Cass, and Otoe County.

SENATOR NORDQUIST: I'm Senator Jeremy Nordquist from District 7, downtown and south Omaha.

SENATOR NELSON: Senator John Nelson, District 6, central Omaha.

SENATOR MELLO: Sitting next to Senator Nelson, Senator John Harms will also be joining us later. Senator Harms represents the 48th Legislative District in Scotts Bluff County. Sitting to my right here is Senator John Wightman. Senator Wightman will be joining us momentarily from an Executive Board meeting that's running a little late. Senator Wightman represents the 36th Legislative District, incorporating Dawson County.

SENATOR CONRAD: Danielle Conrad, north Lincoln.

SENATOR BOLZ: Senator Kate Bolz, representing District 29, south Lincoln.

SENATOR MELLO: Sitting next to Senator Bolz is Senator Tyson Larson, representing the 40th Legislative District in northeast Nebraska. Assisting the committee today is Anthony Circo, our committee clerk; Matthew Ruiz, who is a senior studying international business at the University of Nebraska-Lincoln, who is our committee page. Sitting to my left and your right is Liz Hruska, is one of the few fiscal analysts who will be joining us throughout the afternoon of bill hearings. On the cabinet to your right you will find some yellow testifier sheets. If you're planning on testifying today, please fill out one of those sheets and hand it to Matthew when you come up to testify. It helps us keep an accurate record of today's public hearing. There is also a white sheet on the cabinet if you do not wish to testify but would like to state on the record your position on a specific piece of legislation. We will hear testimony in the following order. First, will be

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the introducer. We will then hear those in support, followed by those in opposition, then those testifying in the neutral capacity. And we will end with a closing statement by the introducer. If you have any handouts, please bring up at least 11 copies and give them to Matthew, our page. If you do not have enough copies, he will help make copies for you. We ask that you begin your testimony by giving us your first and last name and spelling them for the public record. We will be using a five-minute light system today. When you begin your testimony, the light will turn green. The yellow light is your one-minute warning. And when the red light comes up we ask that you please wrap up with your final thoughts. At this time, I would ask all of us, including senators, to look and make sure that our cell phones are on silent or vibrate mode. And with that, we will begin today's public hearing of LB974 and I will turn the gavel over to Senator Danielle Conrad.

SENATOR CONRAD: Thank you, Chairman Mello. Oh, I knew this day would come.
(Laughter)

SENATOR MELLO: Good afternoon, Senator Conrad, members of the Appropriations Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. In the aftermath of the child welfare privatization initiative, one of the recommendations that came out of the Health and Human Services Committee's LR37 report and a related performance audit on child welfare reform was the adoption of performance-based budgeting requirements for the Division of Children and Family Services. LB974 would expand these requirements to three additional divisions within the Department of Health and Human Services: the Division of Behavioral Health, Division of Developmental Disabilities, and the Division of Medicaid and Long-Term Care. The bill would also extend the existing requirements on the Division of Children and Family Services for an additional biennial budget cycle. Under LB974, the Department of Health and Human Services would be required to develop a strategic plan for each of the aforementioned divisions as part of the appropriations process for each of the next two biennial budget cycles. In these plans the department shall identify the main purpose of each budget program, develop key goals for measuring progress in meeting those purposes, and develop benchmarks and time frames for meeting those goals. Each September following the adoption of the biennial budget, each division would submit a report to the Appropriations Committee and the Health and Human Services Committee regarding their progress towards meeting the key goals identified in their strategic plan and would appear at a joint hearing of the committees to present the report. As some of the members may recall, I introduced legislation in 2011 that would have required all state agencies, not just the Department of Health and Human Services, to move towards a performance-based budgeting system. While LB974 represents just a small expansion of performance-based budgeting, recent audits by State Auditor Foley have convinced me that these additional divisions should face a greater level of scrutiny than what our current budget process provides and a responsible next step to help the Legislature get a better handle of the

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budget for the largest state agency in Nebraska government. Thank you for your time and I'd be happy to answer any questions you may have. [LB974]

SENATOR CONRAD: Are there any questions from the committee? Thank you, Senator Mello. At this time we will call proponents to the microphone. [LB974]

MIKE MARVIN: Where's your clerk at? [LB974]

SENATOR CONRAD: I'm sorry, the page is on an errand, but we will have him enter that. [LB974]

MIKE MARVIN: Okay then. [LB974]

SENATOR CONRAD: Thank you, Mike. [LB974]

MIKE MARVIN: You bet. Good afternoon, Senator Conrad, members of the Appropriations Committee. My name is Mike Marvin, M-i-k-e M-a-r-v-i-n. I'm the executive director of the Nebraska Association of Public Employees, the union that represents state employees. Thank you for the opportunity to appear before you today and I will be very short today. I'm here to support LB974. NAPE believes strongly that oversight of agencies is necessary. HHS has proven repeatedly that without oversight this executive branch agency cannot be trusted to do the job they are charged with. They are responsible for other things, such as BSDC, ACCESSNebraska, all that have been failures. Ideally for me, this bill would go much further and require some means of getting input from front-line employees to how things are really happening out there in the field. That way you can really get a true picture of what was going on. Our employees are too often afraid to come here and testify in front of these committees. They have to do it on their own time and they have fear of retaliation. We believe that this is...that LB974 is a good step and we strongly urge you to move this on. With that, I'll conclude my testimony. And if you have any questions of me, I'd be happy to answer. [LB974]

SENATOR CONRAD: Are there any questions for Mike from the committee? Thank you, Mike, appreciate your testimony. [LB974]

MIKE MARVIN: Well, it's good to be back testifying in front of you again... [LB974]

SENATOR CONRAD: Good to see you. [LB974]

MIKE MARVIN: ...instead of Kansas. (Laugh) [LB974]

SENATOR CONRAD: Are there other proponents? Let the record reflect that we have been joined by Senator John Wightman of Lexington. [LB974]

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NICK FAUSTMAN: (Exhibit 1) Good afternoon. I'm Nick Faustman with the Nebraska Health Care Association, which is the parent association to a family of entities, including the state's largest association for nursing facilities and the state's only association dedicated specifically to assisted-living facilities. Faustman is spelled F-a-u-s-t-m-a-n. Both NNFA and NALA represent nonproprietary, proprietary, and governmental long-term care facilities, and both support LB974. LB974 would require the Department of Health and Human Services to include strategic plans for the Division of Behavioral Health, the Division of Developmental Disabilities, and the Division of Medicaid and Long-Term Care as part of the appropriations process for each of the two budget cycles. NNFA and NALA contend that LB974 could be utilized as a very helpful tool for both the Department of Health and Human Services, and stakeholders, alike. We are grateful to Senator Mello for bringing LB974 forward for discussion, particularly at a time when the Department of Health and Human Services is planning to convert the current Medicaid fee-for-service structure in long-term care to a managed care model, otherwise known as MLTSS. As you may be aware, the Department of Health and Human Services currently plans to release the request for proposals for the MLTSS project by late spring or early summer of this year, and this means that the total amount of time taken to develop the RFP has been less than ten months--quite the aggressive goal for a contract that will be a massive overhaul for our sector of the healthcare delivery system. Naturally, our members are extremely concerned that if the design and implementation of this managed care system is rushed or if there is not ample research or input from stakeholders, we will experience the same setbacks that other states are experiencing right now. NNFA and NALA maintain that the development of the MLTSS can be done without rushing to meet an aggressive and seemingly unpractical time line, so LB974 can aid in the development of the system by assuring that goals and benchmarks established by stakeholders, through their input, can be reached. Thank you for considering this important proposal and we urge the committee to advance the bill to General File. [LB974]

SENATOR CONRAD: Thank you, Nick. Members, are there any questions for Mr. Faustman? Thank you. [LB974]

NICK FAUSTMAN: Thank you. [LB974]

SENATOR NELSON: I have a question. [LB974]

SENATOR CONRAD: Oh, I'm sorry, Nick. Senator Nelson does have a question. [LB974]

NICK FAUSTMAN: Sure. [LB974]

SENATOR NELSON: Thank you, Mr. Faustman. I'm just looking at the next to the last

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paragraph here, if this can be done without rushing to meet an aggressive and seemingly unpractical time line, LB974 can aid in the development of the system by assuring that goals and benchmarks established through stakeholder input. How stakeholder input, where, how is that going to be implemented? You're a stakeholder, right? [LB974]

NICK FAUSTMAN: Right. [LB974]

SENATOR NELSON: Okay. I mean are you going to be working with Health and Human Services as far as their strategic plan and their goals? [LB974]

NICK FAUSTMAN: We hope that that is something that can be done through the adoption of LB974. The system of managed care for long-term services and supports does require, per federal law, to include a high level of input from stakeholders in the community. [LB974]

SENATOR NELSON: Or is it more likely their plan will be developed and things, and then it would be available for comment later on? [LB974]

NICK FAUSTMAN: Well, we certainly hope that we can provide ample input. I'll tell you, to date there have only been two stakeholder input meetings, an advisory committee. I think there was one just scheduled just late last...early this week maybe. And so considering the current time line that has them wrapping up the development of the RFP by May of this year, we want to make sure that we get as much input into that because, as far as we're concerned, that RFP is the basis for the entire structure of the system. And so that's the most important aspect of the system itself. And so where some might view LB974 as something to slow down the process, we're more concerned, I guess more interested in the bill as kind of serving as a blueprint maybe potentially for developing that RFP. And then even after that, then making sure the system is in place with whichever MCO is awarded the contract so that the implementation date of January 1, 2016, which is what it currently is scheduled for, so that we can meet that, those deadlines, and make sure that we can continue protecting the most vulnerable citizens in the state. [LB974]

SENATOR NELSON: Okay. Thank you. [LB974]

NICK FAUSTMAN: Uh-huh. [LB974]

SENATOR CONRAD: Thank you, Senator Nelson. Thank you, Mr. Faustman. Senator Bolz. [LB974]

SENATOR BOLZ: Hi, Mr. Faustman. [LB974]

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NICK FAUSTMAN: Hi. [LB974]

SENATOR BOLZ: I'm somewhat familiar with your organization and between NHCA and LeadingAge you represent hundreds, thousands of nursing facilities across the state? [LB974]

NICK FAUSTMAN: We, as far as nursing facilities, we have just over 200. Including the assisted-living facilities, our membership is probably 420, 420 probably. [LB974]

SENATOR BOLZ: Okay. So hundreds of facilities, thousands of employees and clients. [LB974]

NICK FAUSTMAN: Absolutely, yes. [LB974]

SENATOR BOLZ: And my reading of the Medicaid long-term care...managed care plan tells me that that plan would result in some significant changes for all 400 of those nursing home facilities. Is that right? [LB974]

NICK FAUSTMAN: Absolutely. [LB974]

SENATOR BOLZ: So for those businesses and nonprofits trying to make their budgets work year to year, ten months is a hard time frame to do two-year budget cycling to make sure revenues are going to match up with expenditures, to make other kinds of changes. Is that assumption right? And could you elaborate on... [LB974]

NICK FAUSTMAN: That is absolutely correct. Our membership is extremely apprehensive, very, very...honestly, very scared of what could happen. We are hearing stories of just disaster in other states. To our south, Kansas, for instance, we had heard from a member from our sister organization down in Kansas earlier this fall that there is a smaller nonchain facility down there who is awaiting payment and it was going on six months. And so it's safe to assume that perhaps some of the bigger chains in Nebraska may be able to sustain some of that, but it's certainly not the case for the smaller ma-and-pa, standalone facilities. [LB974]

SENATOR BOLZ: So a long-term strategic plan, like as suggested in this bill, would help all 400 of your agencies develop their own strategic plans around continuing to serve their constituencies. [LB974]

NICK FAUSTMAN: I would agree with that, yes. [LB974]

SENATOR BOLZ: Okay. Thank you. [LB974]

NICK FAUSTMAN: Uh-huh. [LB974]

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SENATOR CONRAD: Thank you, Senator Bolz. Let the record reflect Senator Kintner has joined us this afternoon. Are there other members with questions? Thank you. [LB974]

NICK FAUSTMAN: Thank you. [LB974]

SENATOR CONRAD: Other proponents of LB974? [LB974]

AUBREY MANCUSO: Good afternoon. Thank you, Senator Conrad, members of the committee. My name is Aubrey Mancuso, A-u-b-r-e-y M-a-n-c-u-s-o, and I'm here on behalf of Voices for Children in Nebraska. We would also like to express our support for LB974. As the committee is aware, the Department of Health and Human Services has experienced numerous challenges over the past several years related to the management of the ACCESSNebraska system, the child welfare system, and others. DHHS has already been using performance-based budgeting for children's services. This has been a part of a greater package of improvements made in this division. The challenges over the past several years have made it clear that there's a need to ensure greater effectiveness in our public systems. LB974 also helps increase the transparency of the budget process and we particularly like the requirement of a public hearing that's included in LB974. This will allow for the public and other organizations to be better informed on how agencies are using funds and how they're working to make improvements. Overall, we believe that LB974 is the measure that helps ensure better government and we would urge the committee to advance this bill. Thank you. [LB974]

SENATOR CONRAD: Members, are there any questions? Thank you very much. Other proponents? [LB974]

JAMES GODDARD: (Exhibit 2) Good afternoon, Senator Conrad, committee members. My name is James Goddard, that's J-a-m-e-s G-o-d-d-a-r-d, and I'm the director of the Economic Justice and Health Care Access Programs at Nebraska Appleseed. I'm here today to testify in support of LB974. As the committee has heard today, LB974 would require, as part of the appropriations process, that department divisions include a strategic plan to establish measurable goals and benchmarks for improving program performance, as well as regular reporting on progress towards those goals. It's our position that this framework would improve oversight of the division's funding in programs, and it would also give greater transparency regarding program policy decisions. ACCESSNebraska has been mentioned already. I wanted to get a little bit more detail on how LB974 might help in situations and ACCESSNebraska I think is a great example. The system was developed in 2009 and it was intended to modernize the service delivery system for the Department of Health and Human Services. The system has been plagued with problems from the beginning and recently the system has been split into two different systems. The goals and benchmarks for the original

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system have never really been aired publicly, and the goals and expected outcomes for the system split are unclear. Had this bill been in place several years ago, the Legislature would have a better sense of how funds will be spent under ACCESSNebraska as well as the goals for the system and system performance. The public would also have a greater understanding of the reasons for the department's policy decisions that affect the system. Instead of that, what we've had is a lack of clarity on how much the system costs, where it's headed, and how performance is going to be improved. LB974 would go far to addressing these and other similar issues. For these reasons, we respectfully urge the committee to advance LB974. [LB974]

SENATOR CONRAD: Thank you, James. Are there any questions from the committee? Thank you. [LB974]

JAMES GODDARD: Thank you. [LB974]

SENATOR KINTNER: I have one question. [LB974]

SENATOR CONRAD: Oh, Senator Kintner. [LB974]

SENATOR KINTNER: I don't have any problem. What you just said sounds pretty good to me. I did have a question. You're the director of Economic Justice... [LB974]

JAMES GODDARD: That's right. [LB974]

SENATOR KINTNER: ...on Health Care Access Programs. Just so I know--I know I could probably ask you off mike but you might not be here when we got off mike--what's economic justice? [LB974]

JAMES GODDARD: I would say economic justice is the ability of an individual or family to actually have the opportunity to earn the wage that they need to support their family and move ahead in life, and that's a general way of how I would define economic justice. [LB974]

SENATOR KINTNER: Good. Thank you very much, appreciate it. [LB974]

JAMES GODDARD: You're welcome. [LB974]

SENATOR CONRAD: Thank you, Senator. [LB974]

JAMES GODDARD: Thanks. [LB974]

SENATOR CONRAD: Thank you, Senator...or thank you, James. Other proponents? Are there any...now we will open the portion for...oh, did you have a question? [LB974]

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SENATOR WIGHTMAN: I thought maybe she had her hand up. [LB974]

SENATOR CONRAD: Oh. [LB974]

SENATOR WIGHTMAN: (Inaudible). [LB974]

SENATOR CONRAD: Okay. Do we have any more proponents on LB974? Move to opposition testimony, do we have any opposition testimony to LB974? Do we have any neutral testimony on LB974? With that, Senator Mello, would you like to close? [LB974]

SENATOR MELLO: Briefly. Thank you, Senator Conrad, members of the Appropriations Committee, one clarification. I think I stepped out of the room but my aide informed me that, Senator Nelson, you had a question in regards to I think a question in regards to the Nebraska Health Care Association in regards to timing. LB974 impacts the next two biennial budget processes, so the RFP that was discussed that would be going out later this spring, so to speak, would not fall directly...the RFP would go out sooner than when the budget process starts but no doubt they'll try to incorporate that into it. [LB974]

SENATOR NELSON: Well, thank you. On that question, we've got this real short time frame but we have these things down the line here, and so that's why I was just, you know, wondering how that's going to be of that much help on this RFP, so. [LB974]

SENATOR MELLO: Not a problem. Just wanted to make sure... [LB974]

SENATOR NELSON: Okay. All right. [LB974]

SENATOR MELLO: ...that we get some clarification. Other than that, I'd be happy to answer any questions the committee may have. [LB974]

SENATOR CONRAD: Are there any questions for Senator Mello? Thank you, Senator Mello. With that, we will conclude the public hearing on LB974 and we will open the public hearing on LB678, Senator Mello. [LB974]

SENATOR MELLO: (Exhibits 3, 4, 5, and 6) Good afternoon, Senator Conrad, members of the Appropriations Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. LB678 makes two changes to the allocation of funds from the Nebraska Affordable Housing Trust Fund by the Department of Economic Development. It is generally aimed at ensuring that our limited housing resources are being put to good use. First, LB678 increases the minimum percentage of funds from the Affordable Housing Trust Fund which must be allocated to each Congressional district. By changing this percentage from 25 percent to 30 percent, the bill ensures that affordable housing dollars are evenly spread between the three

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Congressional districts as possible. Second, LB678 strikes obsolete language that refers to an "entitlement area funds." While the term "entitlement area" is commonly used in reference to federal HUD dollars, it is not defined anywhere in the Affordable Housing Trust Fund statutes. Based upon language in the Department of Economic Development's action plan, this language is currently being interpreted to require that 25 percent of Affordable Housing Trust Fund dollars be allocated directly to the city of Omaha. This has a practical effect of disadvantaging grant applicants, other than the city of Omaha, that are within the 2nd Congressional District. Additionally, because these grant dollars are ultimately subgranted through the city of Omaha, information on the projects receiving these state dollars is not included in the Department of Economic Development's annual report. After LB678 was introduced, my office realized that while the bill repealed language dealing with entitlement areas, it neglected to repeal a reference to nonentitlement areas. The committee should have received a copy of AM1761 which would strike that reference as well. In addition, I've asked the Fiscal Office to prepare a brief summary on the Affordable Housing Trust Fund so that the committee has some background information on the historical use of these funds. A copy of that summary of information has already been predistributed to all senators' seats. Thank you for your time and I'd be happy to answer any questions you may have. Aside from the handout from the Legislative Fiscal Office that shows currently right now the fund balance as of December 31, 2013, was \$15,854,000, the projects under contract, that means projects that currently are utilizing those dollars, equates to \$14,900,000, which means right now there is a balance of, give or take, a little less than \$700,000 currently available in the Affordable Housing Trust Fund. Aside from that handout from the Fiscal Office, the committee should have also received letters of support for LB678 from Habitat for Humanity of Omaha as well as Midwest Housing Equity Group. With that, I'd be happy to answer any questions the committee may have. [LB678]

SENATOR CONRAD: Thank you, Senator Mello. Are there questions from the committee? Senator Kintner. [LB678]

SENATOR KINTNER: Well, Mr. Chairman, how do you come up with this? I mean you just wake up one night when everyone is asleep and just wake up and (inaudible) I think we need to reallocate that money and change that language? Or did someone bring this to you? How did this get to be a bill? [LB678]

SENATOR MELLO: That's a great question, Senator Kintner, and I appreciate it. A couple years ago Senator McCoy actually introduced a bill that the Legislature passed that required all state agency reports that are mandated by state statute to, instead of just be given to the Legislature via paper copy, that those reports have to be submitted electronically. And so the public at large as well as senators can get on-line on NebraskaLegislature.gov and be able to peruse and evaluate those statutorily required reports giving us updates on different programs, different statutory requirements or

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regulations that we require agencies to do. In evaluating and reading through, I have a tendency, as some may know, a tendency to read through almost all of these reports. And in reading through the Department of Economic Development's report this past fall it came to my attention that there was no funding appropriated to the 2nd Congressional District under their annual report. My office contacted Jeanne Glenn with the Fiscal Office to find out and see if we could get more information of why the department wasn't submitting any information or whether or not the department was meeting the statutorily required obligation in statute that says 25 percent of the Affordable Housing Trust Fund needs to go to each of the three Congressional districts. In further evaluation and conversation with the Fiscal Office and then ultimately the Department of Economic Development got us information back as well that they had interpreted some of this language, this language that we feel is, one, a little confusing and, frankly, it's not defined in statute with regards to "entitlement areas" and "nonentitlement areas," that the department said that they had appropriated money just directly to the city of Omaha. And since the city of Omaha was the grantee, they didn't...they didn't submit, I should say, any of the subgrantees of that direct appropriation from the Affordable Housing Trust Fund. In that same process, we've come to talk with different organizations and entities within the 2nd Congressional District and Omaha who had concerns about why...the concern that there wasn't money being appropriated, so to speak, and they didn't know where the money was. And as we relayed to them, the department chose to utilize this process recently, which has caused some concerns, not just among, I would say, nonprofit housing developers and entities like Habitat for Humanity or other economic development corporations. But in general, there's been some concern that the city of Omaha, while appropriated money over the last few years, has not spent that money in a very quick fashion; that the money was held for a period of time. Thus, it gave the illusion that there was not affordable housing dollars going out, so to speak, to subgrantees or applicants. So that's kind of where we have today LB678. The general premise is the Legislature determined a while ago, from this committee actually, that they wanted to make sure that affordable housing dollars were evenly distributed across the state; that it wasn't just going to Omaha, it wasn't just going to Lincoln, and it wasn't just going to rural Nebraska. So in statute, we have a requirement that 25 percent goes to each Congressional district in regards to the number of grantees. Then we have an additional 25 percent that can be spread across the state, depending upon who applies for the funding. What we simply did is we wanted to make sure that each Congressional district gets a little bit more in the sense of the 1st, 2nd, and 3rd Districts, which would happen under LB678, and then there's still that 10 percent, I would say, 10 percent of the fund that's available to go anywhere across the state depending upon the application. [LB678]

SENATOR KINTNER: Great. Thank you. [LB678]

SENATOR CONRAD: Thank you, Senator Kintner. Thank you, Senator Mello. Are there other questions for Senator Mello? Senator Wightman. [LB678]

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SENATOR WIGHTMAN: Yes. Senator Mello, can you give us any figure about how that division has been, say, in the last two to five years between the Congressional districts? [LB678]

SENATOR MELLO: I do not have that information available with me today, Senator Wightman. I'm sure I can request that information or I probably would suggest to you to ask the fiscal analyst, Jeanne Glenn, who oversees that fund. She can probably get that information, I assume, from the Department of Economic Development outside of that 25 percent mandatory requirement that each district gets. [LB678]

SENATOR WIGHTMAN: Thank you. [LB678]

SENATOR CONRAD: Thank you, Senator Wightman. And let the record reflect we are joined by fiscal analyst Jeanne Glenn, and Senator Tyson Larson has joined the committee as well. So welcome to both of them. Senator Nelson. [LB678]

SENATOR NELSON: Thank you, Senator Conrad. Thank you, Senator Mello. How do they go about deciding? Are there applications from each of the Congressional districts for that money? Who makes the decision it all goes to the city of Omaha or maybe some to Arlington or other places around the district? [LB678]

SENATOR MELLO: That's a great question, Senator Nelson, and I think that's part of the issue of what we're trying to address here, that every...essentially the process, as I've come to understand it being on this committee is that an entity would apply for funding through the trust fund. And there is a certain percentage, the 25 percent, needs to be allocated to grantees within each Congressional district. For some reason or another, this language that creates entitlement areas and nonentitlement areas, the department hasn't always utilized that. And so it's been kind of a hit and miss of when they want to utilize it. And of late the concern was raised that they directly appropriated all of the 2nd Congressional District funds to the city of Omaha. And in part, I think, due to the concern that we heard that the money was not subgranted out in a very quick manner, that's a concern I've had and it's a concern I've heard from other nonprofit housing developers in the Omaha area. And so the way the process would work under LB678 would just simply be the process I think most of us had assumed it has always been the process, which an entity applies to the Department of Economic Development in regards to seeking a certain dollar amount for an affordable housing project and until they reach that, so to speak, under my bill, that 30 percent threshold, those projects are eligible. And once the 30 percent threshold is met, that's left up to the department, to so speak, in regards to whether or not they choose to fund those projects above and beyond that, knowing there's that 10 percent cushion for them to make that determination. [LB678]

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SENATOR NELSON: Thank you. [LB678]

SENATOR CONRAD: Thank you, Senator Nelson. Other questions? Thank you, Senator Mello. [LB678]

SENATOR MELLO: Thank you. [LB678]

SENATOR CONRAD: Now we'll open up the public hearing to any proponents for LB678. Welcome. [LB678]

FRED HOPPE: Thank you. My name is Fred Hoppe, F-r-e-d H-o-p-p-e. I'm a homebuilder from Lincoln, Nebraska, and also an attorney. I do, in my homebuilding business, I develop affordable housing, mostly low-income housing tax credit properties. I'm here on behalf of the Metro Omaha and Home Builders Association of Lincoln legislative coalition, and we're here in support of this bill. We believe it's appropriate to have a balance of the Affordable Housing Trust Funds distributed to the three districts across the state. It gives all of the population of our state equal access, the low-income population of our state equal access to funds. How these funds are used, for your information, is generally low-income tax credit housing developments are built with either a 9 percent federal tax credit or a 4 percent federal tax credit. Most recently, the 4 percent and the 9 percent tax credits are not what they appear. They're based on a formula that is a formula of present value of the tax credit that's applied. Today that present value approximates 7.2 percent on a 9 percent credit, right in that area. What that means in practical terms is, even if you can work out a project to come out with...you have a project that costs you a million bucks and the basis of that project is 900,000 bucks, for instance, you can't close the gap and pay for the entire project using tax credits alone. We have to go out and get outside money to bring it into the project to make the project foot. This spreading the affordable housing tax fund money across the state is the money that's used to close that gap in many, many instances, most instances. And as a result of that, having it available everywhere really is fair for all the different districts and the lower income people across the state. So we'd ask you...we support the bill. We'd ask you to move it forward. Thank you. And I'll answer any questions. [LB678]

SENATOR CONRAD: Are there any questions from the committee? I do have a question. [LB678]

FRED HOPPE: Sure. [LB678]

SENATOR CONRAD: Fred, thank you for joining us here today. In regards to the 10 percent that would be unallocated under this legislation,... [LB678]

FRED HOPPE: Right. [LB678]

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SENATOR CONRAD: ...would it just be more fair to divide it up thirty-three and a third to each Congressional district? Or is it important to retain some sort of flexibility for other priority projects? [LB678]

FRED HOPPE: You know, there are priority projects that come down the pike that just ought be funded. They just ought to be funded. And to have a reserve in that fund for the decision makers based on priority, necessity, different things like that, is appropriate. To have 25 percent in there, we don't need. [LB678]

SENATOR CONRAD: Very good. Thank you. [LB678]

FRED HOPPE: Okay. [LB678]

SENATOR CONRAD: Other senators? Senator Kintner. [LB678]

SENATOR KINTNER: Give me an example of something that ought to be funded. What kind of projects should be funded? [LB678]

FRED HOPPE: To me? [LB678]

SENATOR KINTNER: Yeah, to you. I just... [LB678]

FRED HOPPE: Veterans' housing should be. Homeless veterans' housing ought to be funded in a New York minute. To me, my last project, I built homeless for persons with severe mental illness. We have a terrible deficit in Nebraska in funding for purpose...people with special interests, particularly persons that don't speak well for themselves, like persons with severe mental illness. [LB678]

SENATOR KINTNER: Was that like a group home or a cluster of homes with services offered or...? [LB678]

FRED HOPPE: You can go look at it. It's at 10th and Military in Lincoln. Next time you head up to the interstate, it's on the left side. It's called Creekside Village. [LB678]

SENATOR KINTNER: Okay. [LB678]

FRED HOPPE: There's 60 apartments there. In that, we have 20 units that are for persons specifically with severe mental illness and then we fund, in that project, we fund a service worker so that it can handle those people. So is it a group home? No, it's independent living for all of those people, but I provide, in my rent structure, I provide so they have a caseworker there that can help those people cope with their living. And from that standpoint, it allows me to integrate those 20 units in with the rest of my

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project. [LB678]

SENATOR KINTNER: Well, thank you, appreciate that. [LB678]

FRED HOPPE: Yeah. [LB678]

SENATOR CONRAD: Thank you, Senator Kintner. Senator Nelson. [LB678]

SENATOR NELSON: Yes, thank you, Senator. Thank you, Mr. Hoppe. [LB678]

FRED HOPPE: Yes, sir. [LB678]

SENATOR NELSON: A full disclosure, you were our hosts as at a luncheon the other day, is that right? We talked briefly. [LB678]

FRED HOPPE: Yes, I was, as the attorney for the Realtors Association. [LB678]

SENATOR NELSON: Lincoln has grown terrifically. I mean I drive down from Omaha and I see the growth. Now you were referring to apartments out there along the interstate which every time I come down to Lincoln it seems there are new things going up. Is that where your project, one of the projects is? [LB678]

FRED HOPPE: North 10th Street... [LB678]

SENATOR NELSON: North 10th. [LB678]

FRED HOPPE: ...at Military, which is about six blocks north of the stadium. [LB678]

SENATOR NELSON: Oh, okay. Could you just run us through what you have to do to develop something like that as far as obtaining access to these funds? I mean... [LB678]

FRED HOPPE: Yes, sir. [LB678]

SENATOR NELSON: ...do you file a writ...a writ or an application of some sort? [LB678]

FRED HOPPE: Yes, sir. [LB678]

SENATOR NELSON: Yeah, just for (inaudible). [LB678]

FRED HOPPE: The project, you define in your mind the definition of your project, what you're going to do. First thing you do is you try and find land and try and figure out a way to get land in a big enough mass so that it makes your project work, whether that is single-family lots and you put in single-family residences for a project or a fairly

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good-size piece of real estate like we have at Creekside. The next thing you do is you work the finances on the thing to determine how the cost of the project is going to fit with the rent structure for persons 60 percent median income and below. Once you put all those things together and you figure out what you're going to build there, then you make an application in the Nebraska Investment Finance Authority or a joint application to the Nebraska Investment Finance Authority and the Department of Economic Development to build your project. There's a scoring system in the 9 percent categories, and I almost always build 9 percent. Four percent is for bond deals which are extremely difficult to put together in Nebraska. But you apply for the 9 percent credits. In that you outline who you're going to rent to, what the size of your units are, what the cost of those units are going to be, what funding sources you're looking for to make the whole project foot, as well as what you're putting in it yourself. And then based on a...what they call an allocation plan that's developed annually by the Nebraska Investment Finance Authority and the Department of Economic Development, each independently for the different parts they have, they'll review your project and your proposal against the criteria set forth in the plans. And those that serve the criteria the best will be awarded credits, okay, or soft money through DED through the Affordable Housing Trust Fund. So the Affordable Housing Trust Fund piece is a separate application in the Department of Economic Development, but they dovetail with an application for low-income tax credits at the Nebraska Investment Finance Authority. Does that answer your question? [LB678]

SENATOR NELSON: It sure does. Thank you very much. [LB678]

FRED HOPPE: You bet. [LB678]

SENATOR NELSON: One final question. You maintain ownership of this or is this something you can develop and then not flip but sell to some other entity? [LB678]

FRED HOPPE: Here's how that works, ownership works. Normally, you put these projects...that one of the criteria of low-income housing tax credit is you have to rent to people 60 percent median income or below or however you may be further restricted by your applications and grants, but you agree to lease to people 60 percent median income or below for a period of 15 years, and you get a tax credit for a period of 10 years. For that 15-year period of time, you have...you put it in a...in a sole owned, solely owned or a LLC or a limited partnership that flows the tax credit out to an investor. You use that investment, the tax credit you sell, you bring it back in to finance your project. That sale then, you have an entity that stays in place for 15 years. And there's some rules and penalties if the interests in that partnership are transferred before the 15-year period is out. So normally, that's maintained, those projects are maintained by the same entity for a 15-year period of time. The partnership agreement sometimes has back ends about how you sell those or how you can sell that project at the end of the 15 years. Frequently, you're required to sell it to a nonprofit or qualified nonprofit.

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Frequently, to get enough points to build the project, you have to agree to maintain low-income housing in those units for not 15 years but 30 years or 45 years. And those are all factors in the weighing process to get your credits. [LB678]

SENATOR NELSON: Okay. Thank you. That's very helpful in understanding how this all works. [LB678]

FRED HOPPE: Okay. [LB678]

SENATOR CONRAD: Thank you, Senator Nelson. Other questions? Thank you very much, Mr. Hoppe. [LB678]

FRED HOPPE: Sure. [LB678]

SENATOR CONRAD: Are there other proponents for LB678? I think the page has stepped out for a moment but... [LB678]

DANIELLE HILL: Okay. Can I just pass this around then? [LB678]

SENATOR CONRAD: Yeah. Welcome. [LB678]

DANIELLE HILL: (Exhibit 7) Hi. I am Danielle Hill, D-a-n-i-e-l-l-e, Hill, H-i-l-l. I'm the executive director of the Nebraska Housing Developers Association and we're here to support LB678 as well. And that entitlement area is confusing and isn't defined but is generally any community that receives either community development block grant or HOME funds is considered an entitlement city or area. So in Nebraska, that's Lincoln, Omaha, Bellevue, and Grand Island. And the current law that requires that 25 percent of the trust fund be allocated to each of the three Congressional districts with the remaining to be allocated at the discretion of the Department of Economic Development was initiated...actually, it all used to be a competitive process. It wasn't changed to this until maybe four or five years ago, a little longer. Some people's memories might be longer than mine. But it was a competitive process. And a couple years...well, one year in particular the city of Omaha wasn't competitive and received a big, fat, goose egg, which was a sting to them, as it should have been, and they came in and requested legislation to do the 25 percent to each Congressional district. From that point on, the 25 percent has gone just directly to the city of Omaha's entitlement area and I'll show some reasons why that's not a good thing. And so that's where that kind of initiated. And I will say that the city of Omaha, before they got that big, fat goose egg, they were having problems spending their money in a timely manner and making the trust fund look bad because it was leaving this big balance for all the world to see. And the reason that they weren't competitive is because they were sitting on too much money. And there's a general rule that if you haven't spent 50 percent or 75 percent within a certain time frame, you don't get more money. And so that was happening, but that was years

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ago. That has not been a problem as of late. The Department of Economic Development changed...developed a strategy to kind of avoid that by giving a three-year contract instead of what used to be a two-year contract, and everything that that money is used for is in the city of Omaha's consolidated plan and annual action plan, similar to what DED does every year, the Department of Economic Development. This is why...here's a few reasons why that it's good for that entitlement area language to be stricken. One is, you know how it's just 25 percent for each Congressional district and then you have this 25 percent that can be used at DED's discretion? Well, all the other applicants are on a competitive basis and they just look at what they award to make sure they allocate 25 percent to the other two Congressional districts as well. And if there's...so the 25 percent that's left, that's remaining, that's kind of a catchall for special projects or awarding more than the 25 percent required, that's only disbursed within the 1st and 3rd Districts. The 2nd District isn't eligible for that because there's direction in the application guidelines in the annual action plan that the Department of Economic Development puts forth that says nobody that's doing a project within the city limits of Omaha, they have to apply to the city of Omaha. So those guys are not even eligible to get more money into that district. The communities that are in District 2 that are outside the city limits of Omaha can apply and they would be funded with that remaining 25 percent. And another thing is that this hasn't happened, but if things change and it does, if city of Omaha doesn't spend the money in a good enough time and the department recaptures it, they allocate it then to open available projects. Well, nobody except the city of Omaha has access to the 25 percent or that recapture money, so essentially Omaha could lose it and that district has no opportunity to gain it back. So it does become an access issue. And then...I had one more but you guys can read, it's short. We have never liked the 25 percent allocation. We actually opposed that when it happened because it's not based on what housing need is. It's solely based on population. That district, District 2...I always want to go 1, 2, 3, and that's not right. My time is up. But District 2 would probably get a majority of it anyway if you looked at poverty and population and combined some things. So we've never liked that. We've learned to live with it. We don't really have a huge problem going from 25 to 30. [LB678]

SENATOR CONRAD: Okay. Thank you, Ms. Hill. Are there any questions from the committee? Okay. Oh, Senator Bolz does have a question. Senator Bolz. [LB678]

SENATOR BOLZ: Danielle, tell me how you see the need for affordable housing distributed among the three Congressional districts. Is there overwhelming need in all three districts or is there a distinct contrast between the three districts? What do you see? [LB678]

DANIELLE HILL: I guess if I were to generalize, in District 3 you're more looking at housing for work force and to retain population or to recruit population, but you still have...I'll tell you the biggest overall need of housing in our state is rental housing that's affordable to people like Fred was talking about. And even tax credits, their rents don't

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get low enough for some of those folks. But that need has grown. There's a report that comes out every year and there's 30,000 people in Nebraska that are cost-burdened that either are elderly or disabled that have no chance of increasing their income or taking advantage of economic opportunities. That's the biggest need. But in 3rd District I'd say it's probably related more to work force and retaining your residents. In the 1st District it's a little hard because, I mean, you go from Lincoln, which is revitalization, I mean it kind of runs the gamut in Lincoln but mostly community revitalization I'd say, where you're rehabbing homes or you're doing demolition and you're replacing with new construction. In other parts of that 1st District it's...a lot of that is purchase/rehab or new construction too. So I guess it is pretty similar, as long as you remember that the rental is a thread throughout the state and the United States. And then Omaha, I mean they could eat up the entire trust fund every year with rehab dollars, you know, demolition and rehab. They don't keep up with codes inspections. I know some folks that live in north Omaha that those houses should be condemned, you know, but the population is so large then. Long answer, sorry. [LB678]

SENATOR BOLZ: One follow-up question, if I could. Does the Department of Economic Development see equal applications from all three districts? I guess what I'm saying is are there shovel-ready projects in one community and not another? Are they getting more applications from one district and not another? [LB678]

DANIELLE HILL: Well, the 3rd District, which is of course a broader geographic area, they said last year 50 percent of the applications for the trust fund, which would not include the 2nd District because there is no application from there, came from the 3rd District. But Nebraska has got some really good capacity with nonprofit housing development, and our for-profit developers are really good as well. So I don't know if that's the same every year. I do know that if they treated each entitlement area equally that Lincoln would have not gotten \$200,000 from the trust fund two years in a row, that abysmal, you know? So, yeah, it's hard to tell. [LB678]

SENATOR BOLZ: Okay. Thank you. [LB678]

DANIELLE HILL: Uh-huh. [LB678]

SENATOR CONRAD: Are there other questions? Thank you, Danielle. [LB678]

DANIELLE HILL: Thank you. [LB678]

SENATOR CONRAD: Are there other proponents to LB678? [LB678]

KORBY GILBERTSON: Good afternoon, Senator Conrad, 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, appearing today as a registered lobbyist on behalf of the Nebraska Realtors Association

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in support of LB678. I think a lot of what I was going to say has been covered, but the realtors, you know, Senator Conrad knows this, have always been very big proponents and protectors of this fund because we see the need for affordable housing for special populations in our state. And with that, I'd be happy to try to answer any questions. [LB678]

SENATOR CONRAD: Thank you, Ms. Gilbertson. Are there any questions from the committee? Thank you. [LB678]

KORBY GILBERTSON: Thank you. [LB678]

SENATOR CONRAD: Other proponents of LB678? While we let people shuffle a bit, we'll let the record reflect we are joined by Senator John Harms of Scottsbluff this afternoon. With that, are there any opponents to LB678, opposition testimony? With that, are there any neutral testifiers on LB678? Senator Mello, would you like to close? Senator Mello waives closing. Thank you, Senator Mello. [LB678]

SENATOR MELLO: Thank you, Senator Conrad. And we're going to stand a little bit at ease as we wait for our last bill introduction of the day from Senator Burke Harr. I do know he's had I think three other bills in other committees today, so we're...the page is looking to go find where he's at for us to be able to move forward. [LB678]

BREAK

SENATOR HARR: Believe you me, I wanted out of the other one earlier. I was on the chair for a long time. I apologize. This is my fourth of four bills today, so my apologies. Thank you for waiting.

SENATOR MELLO: Senator Harr to introduce LB848. [LB848]

SENATOR HARR: Thank you, Chairman Mello, members of the Appropriations Committee. I am Senator Burke Harr, H-a-r-r, and I represent midtown Omaha which is comprised of Dundee, Benson, and the Keystone neighborhoods. I want to start my discussion by talking about the value of homeownership. For generations millions of American families have aspired to purchase and live in a home they can call their own. Their desire has become synonymous with achieving the American dream and joining the nation's middle class. The journal, Real Estate Economics, in its January 10, 2003, article found that, quote, owning a home compared with renting leads to a 13 to 23 percent higher quality home environment, greater cognitive ability and fewer childhood problems. For children living in the owned home math achievement is up 9 percent higher, reading achievement is up 7 percent higher, and children's behavioral problems are 1 to 3 percent lower. According to the Bipartisan Policy Center, "Housing America's Future: New Directions for National Policy," from its February 2013, ten years later, its

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research shows that homeownership has positive impacts on the stability of communities as families support and nurture their homes and surrounding neighborhoods. Homeownership has also been linked with increased civic engagement, higher voter turnout, enhanced home maintenance, and reduced crime rates. More over, homeownership and the stability afforded by homeownership has been linked with positive behavioral outcomes and educational achievements. Dr. Robert Dietz of Ohio State University, Department of Economics and Center for Urban and Regional Analysis, wrote an article titled, "The Social Consequences of Homeownership," that, number one, homeownership are like...children of homeowners are likely to perform higher on academic achievement tests and are more likely to finish high school. Furthermore, children of homeowners have fewer behavioral problems in school and are less likely to become pregnant teenage parents. These outcomes survive many controls for parental education, marital status, and other statistical comparisons, as well as neighborhood characteristics. Political activity, like voting, as well as participation in civic organizations is higher among homeowners than renters after controlling for personal characteristic and socioeconomic status. Homeowners, once again, once controls are in place, are more satisfied with their lives and are happier. Some of the most recent research suggests that a high level of homeownership in neighborhoods enhances the property values. The Nebraska Affordable Housing Trust Fund is a financial resource developed in 1996 to increase the supply and improve the quality of affordable housing in Nebraska. The act notes the lack of affordable housing in Nebraska and the effect...and it affects the ability of communities to maintain and develop viable and stable economics. In 2011, the homeownership for Hispanics and African-Americans were considerably lower than the homeownership for the population overall. This gap hampers economic prosperity and the growth of a stable and secure middle class. As our country grows more diverse with members of today's minority groups accounting for an increasingly larger share of the national population, ensuring that an opportunity for homeownership is open to all creditworthy households is more important than ever. The Nebraska Affordable Housing Trust Fund was created, in the preamble it states, for four reasons: to address the need for affordable housing as identified by the Department of Economic Development; to provide a flexible housing resource to enhance economic development; to serve the lowest income individuals for the longest period of time; and to provide matching funds for federal resources. The Nebraska Affordable Housing Trust Fund generates funds for Nebraska's communities through a small documentary stamp tax on all real estate transactions. There is a tax on the grantor executing the deed, as defined in statute, upon the transfer of a benefit interest in or legal title to real estate at the rate of \$2.25 for each \$1,000 value or fraction thereof. For each \$2.25 of tax collected pursuant to section 79-901, the register of deeds shall credit 95 cents of such amount to the Affordable Housing Trust Fund. LB848, the bill before you today, looks to address the need for affordable housing by making homeownership more affordable to low-income individuals by working with existing federal programs. LB848 will stimulate housing for low-income individuals and families by giving developers and the homeowners a benefit, a grant. It will give each an

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incentive to build and live and maintain property ownership by giving them money up-front at closing from the Nebraska Affordable Housing Trust Fund. The qualifications and definitions for the program are based on the HUD Mortgage Assistance Program. Here is how the program would work. When a company is going to be developed...when a property is going to be developed for purposes of providing housing to low-income people, the developer and the homeowner will be eligible for money at closing. Let's say that a property is predevelopment valued at \$1,000. A developer, such as Habitat for Humanity, Gesu, or any other builder that specializes in low-income...building low-income homes would build a new home on a property that is in a high poverty area and then sells that property to a qualified individual, as defined in the bill. The developed property is now assessed at \$101,000, an increase of \$100,000. Let's say, for simplicity, the property taxes are \$2,000 a year. We capture the property tax amount for the first year and then multiply it by eight. In this case, it would be \$16,000. We would then take the \$16,000, give the developer a grant for 66 percent or approximately \$10,500, and the homeowner a grant for 33 percent of that increase in property value, or approximately \$5,500. The homeowner could use the grant money however they chose. It could be used as part of a down payment, could be used to buy furniture for the new home, or could be used for a lawn mower, landscaping, however that homeowner chooses. The money used for the grant would come out of the Nebraska Affordable Housing Trust Fund. This formula helps create an increase in value to the community and reinvest the money so more homes can be built, and the current homes can be properly cared for. To encourage the qualified individuals properly care for their homes and stay and keep up the homes, we attach a lien to the property. If the qualified individual sells, defaults, or is foreclosed upon within ten years, the owner is responsible and must pay back a portion of their grant based on the number of years they have lived in the home. Again, the money would come out of the Nebraska Affordable Housing Trust Fund. This fund is a state financial resource developed to improve the quality of affordable housing in Nebraska. This fund has been appropriated before. LB935 transferred \$1.6 million from the Nebraska...from the fund to the General Fund due to budget shortfalls in 2010. LB388 transferred \$1 million in fiscal year '11 and '12 from the fund to the Site and Building Development Fund in 2011. This bill also lowered the tax collected from the fund from \$1.20 to 95 cents, with the remaining 25 cents being deposited in the Site and Building Development Fund. Last year the fund took in nearly \$8 million in revenue and spent just over \$3.6 million. As I'm sure Senator Mello told you earlier, Chairman Mello earlier, the funds are allocated by the Department of Economic Development. As of December 31, 2013, the fund had \$15,854,003. As the economy recovers, we expect to see more real estate transactions and the amounts going into the fund to increase. Thanks to the hard work of Chairman Mello and Senator Conrad, the fund will receive an...received an additional \$1.25 million last year and will receive an additional \$1.25 million next year. The purpose of this bill is to appropriate the funds in a two-year pilot program. In the past...and the amount of \$500,000 to develop this program. In the past, the department has invested funds in the following housing activity: homeowner rehabilitation; assisting owner occupations with repair,

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rehabilitation, and construction of their home; homebuyer activities, finance the acquisition or rehabilitation of new construction of home for homebuyers; rental assistance; and also capacity building and operating assistance. The goal of LB848 is to increase homeownership. It is to take money from the fund and place it in a new program that will increase homeownership. I hope that you will advance LB848 and I am open to any questions you may have. [LB848]

SENATOR MELLO: Thank you, Senator Harr. Questions from the committee? Senator Harms. [LB848]

SENATOR HARMS: First of all, thank you very much for coming. I just wanted to ask you a question. In regard to the 33 percent that goes to the person, individual, how do you control that? I mean how do you control whether or not they're going to spend that on something for a home, landscaping, whatever it might be? How do you stop them from buying a car or other sorts of things? [LB848]

SENATOR HARR: Great question. And again, I apologize for being late. And the answer is you don't necessarily. From buying a home, \$5,500, you know, maybe that person needs a new car for a new job. It's not going to be a fancy car because no one is going to finance a car when...a new car for you when you're buying a new home. But maybe you have a new home and you need a new job and that the way you afford that job...new home, is by getting a second job and that job is across town. And it's a night-shift job and there isn't mass transit to get you across town. And so what would happen is that person might buy a \$2,000 car. [LB848]

SENATOR HARMS: I guess what bothers me a little bit, and I'm not against the program, it's just that this is for affordable housing. And if we allow them to get outside of that parameter then I don't know whether or not we're just going astray. [LB848]

SENATOR HARR: Well, you know, let's be honest, probably nine times out of ten what's going to happen is that money is going to be...you're always tight when you're...anybody...well, 95 percent of the population, when you're closing on a house. Money is very, very tight and the lower the income, the tighter the money is. And I would assume in a large number of the cases, vast majority if not all of them, the bank would say, we want that money as part of the down payment for us to give you a loan. And maybe that house is affordable to that individual, which in other cases would not be affordable to them. They wouldn't have the money for a down payment. But, you know, I come back to I believe in an ownership society and I believe that, you know, it's hard for government to tell every individual how they need to spend their money. We're giving them a little freedom to say, hey, we trust you enough to be a part of this program; how is it that we can help you best advance to the middle class? And that may be a car, I'll be frank, it may be, for a second job. I don't know. But we give them that responsibility. [LB848]

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SENATOR HARMS: Thank you. [LB848]

SENATOR MELLO: Senator Nelson. [LB848]

SENATOR NELSON: Thank you, Senator Mello, Chairman Mello. Thank you, Senator Harr. There's just some technical questions here. They're low-income individuals but they're going to have to go out and borrow the money from a bank. [LB848]

SENATOR HARR: Uh-huh. [LB848]

SENATOR NELSON: Or are there other sources where...you know, it's difficult to get loans right now. The bank is going to expect that the mortgage payments will be paid back. You see a problem there? [LB848]

SENATOR HARR: Yeah, it seems contradictory on its face. However, there are individuals coming up after me who are much more well versed in this and how the financing works on these homes. [LB848]

SENATOR NELSON: Okay. [LB848]

SENATOR HARR: So, for instance, Habitat for Humanity...well, I can speak to Gesu or Habitat, there's a third, a third, a third. Believe a third come from contributions, a third comes from financing, and a third comes from that nonprofit. So they aren't paying the full value of the house. They're only paying probably a third of it. And there are loan programs through HUD and through banks. Banks are required to reinvest in communities and especially low-income communities. And there's a HUD program out there that if you borrow money and if you're current on it for a certain amount of time, I believe it's 30...or 10 years, a certain amount of that loan is forgiven. So that's how the home becomes affordable. [LB848]

SENATOR NELSON: Okay. And you go into great detail here as to if foreclosure or something happens seven, eight, nine years down the road, then they have to pay the money back. [LB848]

SENATOR HARR: Uh-huh. It would be a third lien probably. [LB848]

SENATOR NELSON: I'm sorry, what? [LB848]

SENATOR HARR: It would probably be a third lien against the property. I mean it would be a third lien against the property. [LB848]

SENATOR NELSON: Well, the bank's lien is going to be first. [LB848]

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SENATOR HARR: Yep. [LB848]

SENATOR NELSON: And who would the next lien be? [LB848]

SENATOR HARR: Federal program would be second. [LB848]

SENATOR NELSON: Okay. And so it would, from...at that standpoint, there's no money left generally and so I seriously doubt you're going to recover anything from the individual if... [LB848]

SENATOR HARR: Well, that's rather fact specific, because it's what we talked about. There's a third, a third, a third, so there's equity in that house up-front, more than probably your regular house. That house...home probably has more equity in it. And when it's foreclosed upon, it's going to be sold. Now, you know, that happens right now all the time, second and third liens don't always get paid. Doesn't mean we don't file second and third liens in the real estate industry. [LB848]

SENATOR NELSON: Well, that also depends on the market for the house and who wants to buy it, and probably not going to bid it in at the value of the cost necessarily. So I see a...I have a question mark about that. [LB848]

SENATOR HARR: What would you recommend to change? I mean is it that they won't collect on it or do you think we shouldn't file the lien at all? [LB848]

SENATOR NELSON: Yeah. Yeah, well, I think it's doubtful that you're going to collect on it. But then the money is there in the affordable house fund so, I mean, there (inaudible). [LB848]

SENATOR HARR: Well, but if you sell the home... [LB848]

SENATOR NELSON: Yeah. [LB848]

SENATOR HARR: ...within the ten years, you're probably going to make a profit. [LB848]

SENATOR NELSON: Yeah, I would agree with that. [LB848]

SENATOR HARR: And so then that lien would be repaid. [LB848]

SENATOR NELSON: I'm just looking at foreclosure. The other thing that puzzles me is that generally it's some length of time before...after the house is completed or purchased before the new assessed value is determined. [LB848]

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SENATOR HARR: Yeah. [LB848]

SENATOR NELSON: And you're saying they're going to have the money available at the time of closing. Who's...is that going to be an estimate? [LB848]

SENATOR HARR: That's a great question and I didn't...you know, when I crafted this legislation, what you find is that certain nonprofits build multiple homes and so they know what their house is going to be assessed at. They've worked with the county assessor, because their homes are all the same. They build the same home over and over. It's the "Model T" of homes. And that way you get some cost efficiency. And so they know what their houses are going to be assessed at. Now it also requires some work with the county assessors and the developer, but they're the ones who want the money. They're going to do the work. [LB848]

SENATOR NELSON: Using your example about \$5,500, that money could be applied to closing costs as well... [LB848]

SENATOR HARR: Yes. [LB848]

SENATOR NELSON: ...I suppose. [LB848]

SENATOR HARR: Yes. [LB848]

SENATOR NELSON: Yeah. Right. Okay. [LB848]

SENATOR HARR: And probably would the vast majority of times. [LB848]

SENATOR NELSON: Yeah. Yeah. I have to agree with Senator Harms that I wish there were some restriction on what the money could be used for. You know... [LB848]

SENATOR HARR: And I'm open to amendments to that. I would have no problem saying it must be used as part of a down payment or however you would see appropriate. [LB848]

SENATOR NELSON: Yeah. All right. I think that's all I have for now. Thank you. [LB848]

SENATOR HARR: Thank you. [LB848]

SENATOR MELLO: Senator Kintner. [LB848]

SENATOR KINTNER: I wasn't going to ask you anything, but the longer you talked the more questions I had. [LB848]

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SENATOR HARR: Ah! [LB848]

SENATOR KINTNER: You said you believe in an ownership society. I believe in an opportunity society. I'm not sure they're exclusive of each other but... [LB848]

SENATOR HARR: I don't think they are. [LB848]

SENATOR KINTNER: You talked about creditworthy, so creditworthy people could get a home. Why would a creditworthy person not be able to get a home today? [LB848]

SENATOR HARR: Great question. So if I work for minimum wage now full-time or if I, you know, you have the expense of two children, one child, three children, whatever it is, you have the expense of health insurance, you have the expense of just living, so they may not be, in and of themselves, creditworthy, because homes are expensive. But working together, we can make a difference. That's what this does. It says you're creditworthy, you don't have a problem individually, it's not as though you have huge individual debt, but you don't have a large enough income on its own to be able to afford the home. [LB848]

SENATOR KINTNER: Well, isn't that the definition of someone who's not creditworthy? [LB848]

SENATOR HARR: Oh, no, no, no, no, no. Creditworthy, it usually goes back to more someone who doesn't pay their debts, is what I would argue, is someone who accumulates large credit card debts and spends beyond their means. There are a lot of people out there that live within their means but just need that extra help to bump them up to the middle class so that they can go from paying rent to paying a mortgage and creating equity. And in creating equity, they create credit, and that makes them creditworthy. These are wonderful people. You're going to hear people come up after me. The people who live in these homes are prescreened. These are not vagrants. [LB848]

SENATOR KINTNER: Why would a bank look at these people and say, no, I don't think you're creditworthy? [LB848]

SENATOR HARR: Why would they? [LB848]

SENATOR KINTNER: Yeah. Why? Aren't they in the business to make money? Don't they want to make money off their loans? [LB848]

SENATOR HARR: Don't we all want to make money? That's why we work for \$12,000 a year. [LB848]

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SENATOR KINTNER: Yeah. So why would the bank loan them money? [LB848]

SENATOR HARR: Because they do think they're creditworthy. Because between, as I go back to, the a third, a third, a third, you get a third up-front, and that's the nonprofit providing it, and you are creditworthy once you're a part of this program. And we want to encourage that, and that's where you become creditworthy. [LB848]

SENATOR KINTNER: It just seems... [LB848]

SENATOR HARR: And they will make money. These people do pay them off. You're going to hear about Gesu and they have not had a house foreclosed upon. [LB848]

SENATOR KINTNER: It seems to me we're just six years out from a huge housing crisis where we were getting people into homes that they really weren't qualified to have under the name of everyone has got to own a home, and we had a real problem with that. So, you know, we're not that far outside that, and now we're working extra hard, you know, to help people get homes they wouldn't normally be able to get into. And it seems to me--this isn't the exact same program--but it seems to me we're doing something similar to what we did that caused the problem. [LB848]

SENATOR HARR: It's different,... [LB848]

SENATOR KINTNER: Okay. [LB848]

SENATOR HARR: ...and let me explain why, because before we were lending money that people...to homes people couldn't afford and we were lending 150 percent of value, and so people were under water. This is different. This is saying we want to incentivize low-income housing. And so what we're going to do is say look at what a person can afford and we're going to give them a little boost. We're going to help them pay for part of the equity in a house so that that is affordable within their current budget. So if they live within their budget, they can afford the house. Before it was, well, we hope you make money coming up. You know, it was interest only for the first five years. It was, hey, we're hoping you're going to make money down the road or we assume you're going to flip it. That's not what this is about. This is just the opposite. We want you to live in that home. We're going to make sure it's affordable. And if you sell it before those ten years, we want our money back. So that's what we're looking to do. It's living within your means but making it affordable so it is within their means. [LB848]

SENATOR KINTNER: All right. I'm leery but I want to hear a few (inaudible), see what they have to say. [LB848]

SENATOR HARR: Thank you. [LB848]

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SENATOR KINTNER: All right. Thanks. [LB848]

SENATOR MELLO: Senator Conrad. [LB848]

SENATOR CONRAD: Thank you, Senator Harr. I know it's been a busy day for you and you came in a little bit rushed and so we'll give you some allowance to get your bearings. But assuming that we cleaned up, by amendment, some of the accountability concerns that Senator Nelson and Senator Harms have brought forward, you said that essentially the distribution to individuals should be utilized for down payment assistance and closing costs. Is that right? [LB848]

SENATOR HARR: That was their recommendation. I'm open to the amendment. [LB848]

SENATOR CONRAD: Okay. Because that is already provided for in the Affordable Housing Trust Fund statutory framework. In fact, it's (10) on page 4 of your bill and clearly defined in the statutes. So I guess (A) how do you envision the split of the subaccount that you're creating between an individual and a homebuilder? [LB848]

SENATOR HARR: Well, as it's written in the statute, it's two thirds and a third. But it could, you know, it could be used for down payment so that you owe less on the future, you know, you have more equity in the home to begin with. If that's what the committee would like to see, I'm amicable to that. [LB848]

SENATOR CONRAD: But Affordable Housing Trust Fund dollars can already be utilized for those purposes, so why do we need your bill at all? [LB848]

SENATOR HARR: What's that? Well,... [LB848]

SENATOR CONRAD: Affordable Housing Trust Fund dollars can already be utilized for those purposes, so why do we need your bill? [LB848]

SENATOR HARR: Well, I guess then the issue is...well, first of all, if you want to make it all go to the developer, that's fine. It makes the house more affordable. And the answer is, you know, we have in the past, as a body, looked at other funds such as this and we create specific formulas or programs to ensure that the money is spent and to make it spent in a way we would like. That's what this does. I think it provides a formula so that if a person goes out and buys...decides...a nonprofit decides they want to go out and build a home, they know when they go to closing there will be money there. And so that's...it's a program within a fund. We do that all the time. [LB848]

SENATOR CONRAD: But on the other side of the new language that you propose it

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would...really, it would be a set-aside then for homebuilders and qualified individuals for a certain component of Affordable Housing Trust Fund dollars. But what I'm struggling with is both qualified individuals and homebuilders are already beneficiaries of the Affordable Housing Trust Fund, so I don't understand why you would create a subaccount to benefit those too. [LB848]

SENATOR HARR: Well, as I said earlier, there is a large surplus in the fund. My fear, and my fear is that it will be used for something not related to affordable housing. [LB848]

SENATOR CONRAD: Like buying a car? [LB848]

SENATOR HARR: What's that? Well, no, because that makes the house affordable, because you couldn't afford the house unless you got a second job. And maybe, if you want to strike that out of there, I'm very amicable to that. But what I'm trying to do is what we have is we have a fund that's accumulating money at a very rapid rate, and partially because of the hard work you've done on this. But we want to make sure this money is allocated and right now the money isn't flowing out. So what we want to do is find a program or incentive to let that money flow out so those individuals know what they can do to get the money. I don't want to spend it...you're right, they already qualify for it, but the money isn't flowing out so we're not doing what we need to do. So the idea is we want to create a program to incentivize them so the money does flow out quicker, so we spend down some of this money. [LB848]

SENATOR CONRAD: Sure. And, Senator Harr, I know that you were in another...two other committee hearings this afternoon so you weren't here for Senator Mello's bill, but I'm hoping that maybe in crafting this legislation you had a chance to visit with the Department of Economic Development or fiscal analysts on this topic. Because we frequently see senators who look at this pot of money and think that there's money there to be had, but as we heard just a little bit ago in this hearing room this afternoon, even though there's a high balance, there's only \$700,000 of unobligated funds. [LB848]

SENATOR HARR: Well, yes and no. What that is, is there's a budget right now or there's an amount in there of \$15 million and then there is allocated already \$13-some million, right? But that isn't...that's assuming there's only \$700,000 in there if we never took another dime in. As you know, we're already going to get another \$1.25 million with the money you helped find, and we're going to have more money coming in because of the document stamp. In addition, I believe the amount coming in is going to increase because property values in Omaha, at least in my district, are starting to take off and there's starting to be a lot more real estate transactions. December was one of the best years for residential real estate development in Douglas County history. And so we're going to see more transactions and we're going to see more dollar amounts. And so I think there will be more money flowing into it. [LB848]

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SENATOR CONRAD: Okay. What I'm really struggling with, with your legislation, is what's broken in the current system? Because from what I understand, in visiting with homebuilders, realtors, community groups, those who benefit from affordable housing, is the system is working very well. [LB848]

SENATOR HARR: Yeah. Well, what I would say is not what's broken; it's what we can do better. And so the answer is, how do we look at who the end user is, and that's an individual who wants a home. I don't like to look at that's how we've always done things. I always like to be a little creative and have some creative confidence to say how can we do things better. And so that's what this is doing. We're saying, hey, there is a demand for affordable housing across the state; how do we make it simpler so those who are building affordable housing can build more homes? That's what this legislation does. [LB848]

SENATOR CONRAD: Now I'll give you a chance to respond, but how I read the legislation is it provides a set-aside or a sweetheart deal or however you want to classify it, "jumpfrogging" private, for-profit homebuilders in front of other public publicity activities, like providing shelter to homeless children. [LB848]

SENATOR HARR: Yeah. [LB848]

SENATOR CONRAD: And I think that's wrong. [LB848]

SENATOR HARR: Okay. Well, I think you, if you look at the bill itself, that may appear that way. But I think you have to look at it in conjunction with the other statutes that are out there. The only eligible partners, and maybe I need to clean up the language a little bit, but the only eligible partners for the Affordable Housing Trust Fund are nonprofits, other government agencies. So a for-profit would have to work with a nonprofit agency in order to do that, number one. Number two, my goal is to get people in homes. That's what I want to do. And if it means someone makes a little money, which I'm not saying it does, I don't have a problem with that. But the goal, number one goal, is to get people into housing. This bill, we have money in the fund and we need to find a way to do it in a better manner or we can do it in a better manner, and that's what I'm trying to do. Set-aside? I mean, again, that's going to be your word, not mine. I don't know if I'd agree with that characterization. I think "subaccount" is probably a better word because we're saying we want to incentivize homeownership. [LB848]

SENATOR CONRAD: But under your legislation, we're creating a new level of bureaucracy that's going to require additional staff and additional expenditures, which then also reduces the amount of affordable housing dollars that can be pushed out into worthy projects and recipients. Chance to respond? [LB848]

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SENATOR HARR: You know, yeah. Thank you. Senator Mello and I had a...one of our earlier hearings today was on fiscal notes and, you know, the issue is this is a subaccount. There are already people who give this money out, as you so justly and appropriately noted earlier. So I'm not sure, I would think this would actually save money because now you have a set program as opposed to reading through grants, trying to figure out what's worthy and what isn't. And then you still have to assess these dollars and you still have to make sure they're being spent appropriately. So I don't know if I necessarily agree with the fiscal note on this. And I've had a nice conversation with...and I can't remember, I think it's Commissioner Lang when it's Labor and Director Lang when it's Department of Economic Development, so I think in this case it would be Madam Director. But you know, it's a difference of opinion. But I'm not sure how allocating money that's already allocated would create extra work. [LB848]

SENATOR CONRAD: Thanks. [LB848]

SENATOR MELLO: Senator Harms. [LB848]

SENATOR HARMS: I'm fine. [LB848]

SENATOR MELLO: Senator Harr, I wanted to make sure that you saw the handout I think that your aide gave you. [LB848]

SENATOR HARR: It was handed to me while I was in here, yeah. [LB848]

SENATOR MELLO: This was a handout that was given to the committee today during a previous bill. And you're correct in the sense that it has...the Affordable Housing Trust Fund has \$15.8, give or take, million in it, but it also has \$14.9 million of those dollars are currently set aside, given essentially for existing grants. So there's not really a balance, so to speak, or a surplus outside of that \$700,000 amount. I think the point you made in reference to a question Senator Conrad asked, the fund brings in about \$8 million a year, and that fund ultimately gives out \$8 million a year. The fund has already brought in \$4 million, according to the Fiscal Office. They're anticipating another \$4 million, and they have a current grant application process now to appropriate or award \$3.6 million in grants in their current grant cycle. So it's generally kind of been the committee's understanding that the money that comes in, the money that...the money comes in and it goes out. But just wanted to make sure more just for clarification purposes on this sheet here. [LB848]

SENATOR HARR: Yeah. And I noticed there was a...yeah, well, okay. [LB848]

SENATOR MELLO: And then one other thing I think as more just a point of clarification between your dialogue with Senator Conrad, the existing Affordable Housing Trust Fund, for-profit entities can also qualify. It lists it under Section 5 of the statute that

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"for-profit entities working in conjunction with one of the other eligible organizations."
[LB848]

SENATOR HARR: And that's what I said. [LB848]

SENATOR MELLO: So, okay, I just wanted to make sure. It's not just nonprofit entities that qualify for the Affordable Housing Trust Fund. It's... [LB848]

SENATOR HARR: In partnership, I believe that's what I said. If I didn't, I apologize.
[LB848]

SENATOR MELLO: So it's municipalities, local housing authorities, a variety of entities that qualify, but. Any other questions from the committee? Seeing none, thank you, Senator Harr. [LB848]

SENATOR HARR: Thank you. [LB848]

SENATOR MELLO: First we'll take proponents of LB848. Good afternoon. [LB848]

MIKE WILMOT: (Exhibit 8) Good afternoon. Thank you for being here still. My name is Brother Mike Wilmot, M-i-k-e W-i-l-m-o-t. I am the president of Gesu Housing. We're a nonprofit/profit developer in north Omaha. We started in 2002. We have built 25 homes. There's pictures of them in that brochure. We have had no foreclosures. Everything that young Mr. Hoppe said to you people, I second that. So I'm not going to go through any of that stuff. I told you about our no foreclosures. It's pretty simple. It's a third, a third, a third. The buyer supplies a third, the grant...the government, the city, whichever you want to call it, they supply grants. And then we as a nonprofit, we have to raise the third. That's what we do. So...and we talk to all sorts of people, big outfits and little outfits. We send out mailers. People send us \$10 in a check, you know, stuff like that and sometimes, you know, stuff like that. And that's how...that's my main job right now, mine and my partner here, Dale Barr. He puts all these numbers and stuff together like that. I don't understand all that stuff. But so I'm definitely supporting Burke Harr in what he wants to do. That's about it. Any questions? [LB848]

SENATOR MELLO: Thank you for your testimony, Mr. Wilmot or Brother Wilmot. Questions from the committee? Senator Harms. [LB848]

SENATOR HARMS: First of all, thank you very much for coming and testifying, and appreciate the work that you do. What's the square footage in these homes? [LB848]

MIKE WILMOT: About 1,280. It's a single...a one-story building with a basement, full basement. The mothers love our basements and our kitchens for...especially if they have little kids. [LB848]

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SENATOR HARMS: What's the cost per square foot? [LB848]

MIKE WILMOT: I don't know. Off the top of my head, I don't know. [LB848]

SENATOR HARMS: Okay. What do the houses generally run financially, costwise? [LB848]

MIKE WILMOT: About \$180,000. [LB848]

SENATOR HARMS: Okay. Thank you. Oh, one other question. When you build these homes, you make these homes as energy-free or as green as possible? I guess that's the term, I don't know. [LB848]

MIKE WILMOT: What free? [LB848]

SENATOR HARMS: As energy-free as possible? [LB848]

MIKE WILMOT: Yes. Yes. [LB848]

SENATOR HARMS: How do you do that? What's actually goes into the home to make this as energy-free? [LB848]

MIKE WILMOT: Well, we...there's all sorts of regs that are in now that we have to follow, and we have a two-by-six wall rather than a two-by-four wall, and that gives us much better insulation. Our basements are concrete and they're insulated, and then the roof and everything like that. So our buildings are very energy... [LB848]

SENATOR HARMS: Do the homes have air conditioning too? [LB848]

MIKE WILMOT: Yes. [LB848]

SENATOR HARMS: Okay. [LB848]

MIKE WILMOT: Heating and air conditioning. [LB848]

SENATOR HARMS: All right. Thank you. Thank you, Mr. Chairman. [LB848]

SENATOR MELLO: Senator Conrad. [LB848]

SENATOR CONRAD: Thank you very much for coming in. Appreciate your testimony. It seems to me, from your materials and your testimony, that your organization is already doing very good work with the assistance of the Affordable Housing Trust Fund. Is that

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a fair assessment? [LB848]

MIKE WILMOT: Yeah. Yeah. [LB848]

SENATOR CONRAD: Okay. And of course we're always eager to make improvements when we have the opportunity, but...and if your a business manager or somebody else would like to answer that's okay, too, I'll put it out there. How would this bill help you do more good, specifically because we're not infusing any additional resources into the fund? Rather, we're actually taking some away. So how would it help you do more good? [LB848]

MIKE WILMOT: Well, we right now, we are building six houses a year and we're on a two-year cycle, so we build six and then another six. And we're never going to get where we're building 100 houses a year. We're relatively small. But we want to keep building those six houses a year. [LB848]

SENATOR CONRAD: I agree. And my concern though is by putting more money into bureaucracy and taking more money away from the grant process through the scheme envisioned in this legislation, it actually lessens the ability of homebuilders, the nonprofits like you, to continue to do good work rather than improve those opportunities. Do you see what I'm saying? Okay, maybe not. I'll just throw it out there for some other testifiers too. But I do commend you for your good work in this regard and for being here today. [LB848]

MIKE WILMOT: Okay. Thank you. [LB848]

SENATOR HARMS: Do we have any other questions? Thank you very much for testifying. We appreciate that. Any other proponents? Are there any...oh, here. [LB848]

FRED HOPPE: My name is Fred Hoppe, F-r-e-d H-o-p-p-e. I'm a homebuilder from Lincoln, Nebraska, a member of the Home Builders Association of Lincoln. I'm also a lawyer. I develop low-income housing. I'm here on behalf of the Metro Omaha and Lincoln Home Builders Associations in support of this bill. We're in support of this bill because it provides, number one, funds that more are targeted to builders and allowable for for-profit builders, and it essentially provides funds to buy down homeownership for persons of very low income. And if you look at the bill, the numbers are it's targeted to low-income areas, poverty census tracts, plus contiguous census tracts, and persons 50 percent median income and below. I'm going to give you three initials, QRM--qualified residential mortgage. If you want to get financing and you don't want to pay out the nose on the mortgage as far as interest rates, you got to have enough skin in the game to get a qualified residential mortgage. When you do that, that takes some cash at the end of the road because a qualified residential mortgage isn't 100 percent mortgage. You have to be able to buy it down to some degree. One of the nice things about this bill is for

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persons that are 50 percent median income and below it provides a fund of cash to do that. I look at the money, and I've run the numbers on a Hoppe Home, which normally I don't build them to sell to individual low-income people. I put my homes normally into low-income tax credit projects and I'll build like 10 or 12 at a time and put together a rental project for a while. But if you're doing it for sale, and that's the benefit of homebuilders, we want to build for sale. If you're doing that and you work the numbers, and I build a house that's about a 1,200 square-foot footprint and with an upstairs and a downstairs, four-bedroom...we laugh because I build the house a lot of times and I'll bet you the majority of the times you see the same house, you can't recognize it because we flip plans and all kinds of stuff. But in any case, when we do that, I ran the numbers pretty close on my home and I build it right now for a hard cost of about 125,000 bucks. If we had this bill in place, that would provide my profit and overhead, that's the two thirds that my share would be, and the other one third would allow that homeowner to buy down and get a qualified residential mortgage. So if you look at it in those terms, and not trying to answer, Senator Conrad, your allocation question, those questions, but if you just look at how this bill applies out in the specific single-family construct, it's got a lot of benefit to a person that's 50 percent median income and below. So we're in favor of the bill, the Home Builders are. That's kind of how I see the bill applying and how it would. And if they would entertain friendly amendments, probably keeping an amendment in place so that all of those funds go to that home, either buying down the home one way or the other, it would probably be appropriate. I will want to speak to...I didn't catch whether it was Senator Nelson or Senator Harms, your question of what happens to the one third. The National Association of Home Builders has data that tells you what people end up buying, spending in the neighborhood at Sears, at Home Depot, at buying furniture when people buy a new house. I mean there are a lot of things to spend money on when you end up buying a brand new house. Most people end up improving, spending an additional 10 percent of their financing on the home and putting it together thereafter. So that was kind of directed to one of your questions. I'll take questions. We're in support of the bill. [LB848]

SENATOR MELLO: Thank you, Mr. Hoppe. Are there questions from the committee?
Senator Nelson. [LB848]

SENATOR NELSON: Thank you, Chairman Mello. Thanks again for coming in on this. Most of your construction is here in the Lincoln area? [LB848]

FRED HOPPE: I build predominantly in Lincoln and Grand Island. [LB848]

SENATOR NELSON: In Grand Island. Not in Omaha necessarily. [LB848]

FRED HOPPE: I don't build in Omaha. [LB848]

SENATOR NELSON: I have no way of knowing how comparable real estate taxes are

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in Omaha and Lincoln, but on a \$125,000 house, once the assessed new value is established, what would you say on an average the tax is? [LB848]

FRED HOPPE: Two percent. [LB848]

SENATOR NELSON: Two percent. [LB848]

FRED HOPPE: That's the number I'd figure. I worked it on...I think I'd have a...if I build my home, I'd build it right about 125,000 bucks, \$115,000 to \$125,000 hard cost, and that would provide...2,500 bucks is 2 percent, times 8, would be 20,000 bucks. So you'd be looking right at... [LB848]

SENATOR NELSON: And so that two thirds of that amount... [LB848]

FRED HOPPE: ...13 and 8. [LB848]

SENATOR NELSON: ...is the profit that you make...would make, if I understood you correctly. [LB848]

FRED HOPPE: Yeah. Uh-huh, roughly. [LB848]

SENATOR NELSON: Okay. And that's worth your time and your while. [LB848]

FRED HOPPE: Well, you know, when you replicate them... [LB848]

SENATOR NELSON: I mean I don't know what... [LB848]

FRED HOPPE: ...it's okay. [LB848]

SENATOR NELSON: And, yeah, I mean but that's interesting. I mean that's your only source of profit margin,... [LB848]

FRED HOPPE: I mean that's what you get when you do it. [LB848]

SENATOR NELSON: ...I mean from what I hear you saying. [LB848]

FRED HOPPE: Right. [LB848]

SENATOR NELSON: Yeah. Okay. Do you see any problem in... [LB848]

FRED HOPPE: It's about 10 percent incidentally. That's right at about 10 percent. [LB848]

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SENATOR NELSON: Yeah, I understand. Yeah. Do you see any problem, and I asked the question of Senator Harr, of establishing that...what did we come up with, \$20,000, that... [LB848]

FRED HOPPE: Uh-huh. [LB848]

SENATOR NELSON: ...that amount there the way the bill is written, you know? How do you work with the county assessor to be sure that that's an accurate figure? [LB848]

FRED HOPPE: Well, in my case I build a lot. I build the same house pretty frequently. [LB848]

SENATOR NELSON: Okay. [LB848]

FRED HOPPE: So, you know, I have comps on the street that are going to be, I mean, right on what I build. So... [LB848]

SENATOR NELSON: Well, that money is going to come up... [LB848]

FRED HOPPE: ...procedurally, I will admit, the bill is...doesn't set probably a process to determine what that second number would be. I analyze it like a tax increment financing. I mean that's essentially how we arrive at the number. The difference is this is front-loaded so you'd probably be talking at it with your banker. [LB848]

SENATOR NELSON: But from...the money is going to come out of Affordable Housing Trust for that \$20,000, isn't it? [LB848]

FRED HOPPE: That would be correct. Uh-huh. [LB848]

SENATOR NELSON: So I'm just wondering, are they going to require kind of a firm figure from you before you get started, I mean so that you know and they know what's going to go for that? [LB848]

FRED HOPPE: I would assume that would be part of an application process. [LB848]

SENATOR NELSON: All right. Thank you. [LB848]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Mr. Hoppe. [LB848]

FRED HOPPE: You bet. Thank you. [LB848]

SENATOR MELLO: Next proponent. [LB848]

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KORBY GILBERTSON: Good afternoon, Chairman Mello, 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, appearing today as registered lobbyist on behalf of the Nebraska Realtors Association in support of LB848. A side note, I don't think it takes tea leaves to read what's going on in here, so I just wanted to talk about the idea of something that you talked about in your hearing on your bill earlier. A number of years ago there was a concern that there was quite a bit of money sitting in the fund and it's not unusual for people to look at it as somewhere to go steal money from. And so the realtors, in our conversations for a number of years, have discussed the fact that it would be good to find projects or things that make it very evident that money is going through on projects and is not just sitting there, because that's the perception, is that there's nearly \$16 million just sitting there all the time. And so when we looked at this piece of legislation, of course the realtors in Nebraska and nationally support homeownership. That's their main purpose, is trying to help people own homes because it makes a huge difference in people's lives in a number of ways. So this was one thing that they...this bill was one way they looked at increasing home ownership and providing an additional use for the Affordable Housing Trust Fund dollars to be used especially in high poverty areas where they might not be getting used adequately right now. So with that, I'd be happy to answer any questions. [LB848]

SENATOR MELLO: Thank you for your testimony, Korby. Are there any questions from the committee? Seeing none, thank you. [LB848]

KORBY GILBERTSON: Okay. Thank you. [LB848]

SENATOR MELLO: Other proponents of LB848? [LB848]

LAUREL MARSH: Good afternoon. My name is Laurel Marsh, spelled L-a-u-r-e-l M-a-r-s-h, and I appear here today in support of LB848 for Community Action of Nebraska. For 50 years the Community Action Agencies have worked to foster cultures and skills which support low-income families in their attainment of economic stability. Nebraska has nine Community Action Agencies. They are private, nonprofit organizations and they're dedicated to helping low-income people attain economic stability, and collectively they do serve all 93 counties. So very briefly, seven of our nine Community Action Agencies have built low-income housing or worked with various programs to...and other community organizations to actually be the builder; two have not. Homeownership, as stated before, is a proven way to develop assets and family wealth. And in short, we support the concepts that are contained within LB848 and urge you to give it serious consideration. [LB848]

SENATOR MELLO: Thank you for your testimony, Ms. Marsh. Are there any questions from the committee? Seeing none, thank you. [LB848]

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LAUREL MARSH: Thank you. [LB848]

SENATOR MELLO: Are there any further proponents of LB848? Seeing none, are there any opponents to LB848? [LB848]

DON WESELY: Hi. My name is Don Wesely. I'm not representing anybody but myself. I'll fill out a sheet. Yeah. I was a sponsor of the Affordable Housing Trust Fund and we spent several years bringing a very broad coalition of builders and agencies like Community Action Agencies to make that legislation happen. And I'm just suggesting this may be a good idea but I don't think it's ready for action. And I think an interim study on it where you get everybody together talking about it, you might find the money to make it work. But I hesitate at changing the direction of the fund. It's been carefully managed over the years, until a few years ago when it seems like they kind of let it drop and that was unfortunate. But it's served all these years because it was well-thought through with a very strong base of support. And I suggest this might be something you can look at but not this session. [LB848]

SENATOR MELLO: Thank you for your testimony, Mr. Wesely. Are there any questions from the committee? Senator Conrad. [LB848]

SENATOR CONRAD: Thank you, Don, for coming in. I knew that you had your... [LB848]

DON WESELY: Yeah. [LB848]

SENATOR CONRAD: ...hand in the origins of this important program. And not to belabor the point because you noted an interim study might be the better way to go and Senator Harr has also already made a concession in this regard. But it's striking to me that the possibility exists under this legislation to take funds meant for affordable housing and allow them to be utilized for something else. Is that striking to you? [LB848]

DON WESLEY: Well, it's a different direction. And I hate to be the old codger that says, well, we've always done it this way, we shouldn't change, but what we have works and I wouldn't change it quickly. [LB848]

SENATOR CONRAD: Yeah. Well, and I can tell you when I fought very hard to ensure that Nebraska's share of the mortgage settlement dollars went for this purpose it was for low-income housing assistance. It was not for other purposes. So that's striking to me. [LB848]

DON WESLEY: Yeah. The committee has raised excellent questions. I think you've done well by looking at it carefully. [LB848]

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SENATOR MELLO: Any other questions from the committee? Senator Nelson. [LB848]

SENATOR NELSON: Just a quick question. You've been present for all three bills? [LB848]

DON WESLEY: Uh-huh. [LB848]

SENATOR NELSON: Apparently you didn't have any opposition to Senator Mello's bill about reallocating from 25 to 30 percent. [LB848]

DON WESLEY: Yeah, I think that makes sense, yeah. [LB848]

SENATOR NELSON: Okay. [LB848]

DON WESELY: There were some problems that came up after the legislation passed that need to be addressed, so. [LB848]

SENATOR NELSON: Thank you. [LB848]

DON WESELY: Yeah. [LB848]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Don. [LB848]

DON WESELY: Thanks. [LB848]

SENATOR MELLO: Are there any other opponents to LB848? Seeing none, are there anyone...is there anyone in the neutral capacity? [LB848]

DANIELLE HILL: Do I have to fill out another one? [LB848]

SENATOR MELLO: Please. [LB848]

DANIELLE HILL: Okay. I promise I will. Danielle Hill, D-a-n-i-e-l-l-e H-i-l-l, Nebraska Housing Developers Association, and I'm just testifying neutral. I wasn't going to say a word, but it's hard for me not to do that when we're talking affordable housing. (A) I'm not sure that this bill is the solution to the real problem, because if the real problem is that Omaha nonprofits perhaps don't have enough resources to develop housing and put enough gap financing in it to make it affordable for somebody that's at a lower income, Gesu Housing is a member organization of our association and they try to build a house and keep the mortgage payment at \$650 a month because that is 30 percent of a low income. Great houses. They started out with concrete houses. You want to talk

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about energy efficient. They became too expensive, so they went to stick built. They're one of the victims that would be fixed by your bill, LB678, yeah, I think. Right now they couldn't apply for more money if they wanted to because they're not eligible to apply directly for trust funds. They have to fit into the city of Omaha's consolidated plan. I'm guessing the problem is they get limited in the amount of resources they get to develop six houses, and I think, if Brother might have understood the question, if he had more money he could have the capacity to build more houses in these neighborhoods that need to be revitalized. You want to increase homeownership. Statewide homeownership before the bubble burst, homeowner...we advocated for a better balance between homeownership and rental, because everything was glory, homeownership, the American dream, and then boom. And now, well, we're not investing in that so much; we need rental housing. Rental housing is the biggest need, period, if you're talking about very low-income people. So you can already finance up-front. You don't have to wait till the closing. The nonprofit has that government grant up-front to either acquire the land, build the home, you know, and they could keep that money in there to make it affordable to the person that is low income, because you're a person first. So there's maybe another solution. Maybe the study is a good thing. Homeownership is a good thing. The other misnomer is homeownership definitely attributes to the stability of a family. All those statistics that Senator Harr...I believe them. But it is a misnomer that owning a home can be an asset because it could take ten years for the equity in houses in north Omaha, Benson, Dundee, what have you, to grow. So you can't do it just for that reason, but there's probably a solution to this and Senator Mello's bill is one of them. [LB848]

SENATOR MELLO: Thank you for your testimony, Danielle. Are there any questions from the committee? Seeing none, thank you. Any other neutral testimony? Seeing none, Senator Harr, would you like to close? [LB848]

SENATOR HARR: (Exhibit 9) Yes, thank you. I'm passing around a letter from Habitat for Humanity that supports this bill. I want to start by saying I did arrive late and I didn't get a chance to look around the room. And I did not realize my high school dean of discipline was here. (Laugh) And the fact that he's here and I was late is even more embarrassing. So I don't want him to think I'm a fireman that shows up late. Thank you to all those who came and testified, both positive, negative and against. I think I want to probably address the negative first. You do sound like the old curmudgeon when you come in and you say there's a problem but you don't identify what the problem is. You got to tell me what your problem with the bill is in your testimony. And, you know, Mayor, Senator Wesely is also a lobbyist and he knows that he should probably talk to someone beforehand and tell them what your problem is. And I don't want the committee to think we talked about it beforehand and I know what I think his problems are. I have no idea what he thinks the problems are with this bill. He came in and testified there's a problem and he said we need to do an interim study. Well, I don't know what an interim study would fix. What I would say is we need more money for

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affordable housing, and we're looking for a way to do it. We need to get money in the hands of those developers. Right now, they're having a problem. Is there a right solution and a wrong solution? There are many solutions. Many of them are right and it's just a matter of degree. You've heard the testimony here today. It was, I thought, very good. The homes built by Brother are energy efficient. They're Energy Star. You know, the fact that you don't get equity in a house in Dundee or Benson, I own two homes in Dundee and Benson. I don't know if I would agree with that broad statement. What I will tell you in my case is I have two homes and one has and one hasn't, but there is equity in those homes because I put it there. There's equity in these homes because the nonprofits put it there because of some of this grant money. There is equity in those homes, so I'm not quite sure what the point is there. Folks, what we're trying to do here today is we're trying to build neighborhoods, we're trying to build communities one home at a time. Is this going to solve the world's problems? No. But what it is, it's going to create some neighborhood and communities. And Gesu works in north Omaha. There's a lot of gun violence up there and there's a lack of community. This bill helps build a sense of community. Habitat helps build a sense of community. They do great work. And let's not underestimate the great work that those who do it for profit do too. Mr. Hoppe came up and gave a great talk about the great work that they do and answered a lot of questions about the finances on this. The real estate industry, who watches this trust fund like a hawk and should, just as you guys do and should, they're okay with this bill. The money is there if we want to do it. The question is whether you want to or not, and that's a policy decision and that's why you sit on this committee. And I'll be excited to hear your response. So thank you very much for the time. And again, I want to apologize for being so late. [LB848]

SENATOR MELLO: Thank you, Senator Harr. Are there any questions from the committee? Seeing none, thank you, Senator Harr. [LB848]

SENATOR HARR: Thank you. [LB848]

SENATOR MELLO: That will conclude our testimony on LB848 and that will conclude today's public hearings. [LB848]