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Appropriations Committee
March 03, 2015

[AGENCY 51]

The Committee on Appropriations met at 1:30 p.m. on Tuesday, March 3, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB154, LB532, LB533, LB560, LB417, LB110, LB593, LB496, LB108, LB436, and agency budgets. Senators present: Heath Mello, Chairperson; Robert Hilkemann, Vice Chairperson; Kate Bolz; Ken Haar; Bill Kintner; John Kuehn; Jeremy Nordquist; John Stinner; and Dan Watermeier. 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 serve as Chair of the Appropriations Committee. I'd like to start off today by having members do self-introductions, starting first with Senator Kintner.

SENATOR KINTNER: Hi, I'm State Senator Bill Kintner from Legislative District 2, which is the rural part of Sarpy and Cass County, all of Cass County. Thank you.

SENATOR MELLO: Sitting next to Senator Kintner who will be joining us shortly is Senator Jeremy Nordquist, representing the 7th Legislative District in downtown and south Omaha.

SENATOR KUEHN: John Kuehn, District 38 in south-central Nebraska.

SENATOR HILKEMANN: Robert Hilkemann, District 4, west Omaha.

SENATOR STINNER: John Stinner, District 48, Scottsbluff.

SENATOR BOLZ: Senator Kate Bolz. I represent District 29 in south-central Lincoln.

SENATOR MELLO: Sitting next to Senator Bolz is Senator Ken Haar, who's walking in

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the room as we speak, representing District 21 in northwest Lancaster County.

SENATOR WATERMEIER: Dan Watermeier, Syracuse.

SENATOR MELLO: Assisting the committee today is Rachel Meier, our committee clerk; and Julia, our committee page. Our fiscal analyst for the day is Kathy Tenopir. On the tables in the back of the room you will find some testifier sheets. If you're planning on testifying today, please fill out one of the sheets and hand it to Rachel when you come up to testify. It helps us keep an accurate record of today's public hearing. There's also a sign-in sheet on the cabinet if you do not wish to testify but would like to record your position on a bill or a specific budget item. If you have any handouts, please bring at least 11 copies and give them to the page when you come up. If you do not have enough copies, Rachel or Julia will help you get them. During the portion of the day that is the public hearing on legislative bills, we will begin bill testimony with the introducer's opening statements. Following opening statements, we will hear from supporters of the bill, then those in opposition, followed by those speaking in a neutral capacity. We will finish with a closing statement by the introducer if they so choose to give one. We ask you begin your testimony by giving us your first and last name and spelling it for the public record. When we hear testimony regarding state agencies we will first hear from a representative of that state agency. We will then hear testimony from anyone else who wishes to speak on the agency's budget request. We will be using the five-minute light system today for all testifiers other than the introducer of a bill or an agency representative. When you begin your testimony, the light on the table will turn green. The yellow light is your one-minute warning. And when the red light comes on, we ask that you wrap up with your final thoughts. As a matter of committee policy, I'd like to remind senators that the use of cell phones and other electronic devices is not allowed during public hearings, and at this time I would ask all of us, the audience, including senators and staff, to please look at our cell phones and make sure that they are on silent or vibrate mode. With that, at this time we'll begin today's public hearing on Agency 51, the University of Nebraska. [AGENCY 51]

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BOB PHARES: (Exhibit 1) Good afternoon, Chairman Mello and members of the Appropriations Committee. My name is Bob Phares, P-h-a-r-e-s. I'm currently chairman of the University Board of Regents and I'm here today on behalf of the board to speak in support of the university's budget request. Before I go any further, I want to introduce a special guest we have with us today. Most of you know, I believe, that beginning next month the University of Nebraska will have a new president. His name is Dr. Hank Bounds. He's currently commissioner of higher education in Mississippi. Dr. Bounds is visiting Nebraska this week, as he has previously, to get acquainted with our state. We're pleased that he's here today to get a peek at the inner workings of the Legislature. Dr. Bounds, would you stand and be recognized. Thank you. We've appreciated Jim Linder's leadership as our interim president and we look forward to Hank's beginning officially with us in April. The budget request approved by the Board of Regents I think is a responsible proposal. It takes into consideration, I think, the needs of our students, faculty, and people across the state. It's a budget that advances the strategic goals of the board that we've developed for the university and I think it meets the expectations of citizens and, I hope, your expectations as well. It's designed to give us opportunities to expand educational opportunities and to help grow our state's economy, and I appreciate the opportunity to talk to you today about it. This is a special time in the history of the university. I feel privileged to be serving as the chair of the board at this time. We're having remarkable momentum. We have opportunities to do even more, I believe. We have seen significant success in enrollment and in research and in the quality of the students that we are attracting to all five of our campuses. We have major goals for more growth in both research and enrollment. We're initiating some promising new partnerships with the private sector on all four of our campuses and the College of Technical Agriculture in Curtis as well. And most important, our students have an incredible menu of opportunities to choose from. They can be involved in rigorous academic programs, like those available through the Peter Kiewit Institute. They have opportunities to study abroad, to work with top faculty and actually do some meaningful research even as undergraduates. They have opportunities to find

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internships at leading Nebraska companies and other career-focused opportunities that will open doors after they graduate, and we hope very much keep them in the state of Nebraska. I believe the reason we're in such a strong position is that we've maintained a good focus on key strategic priorities, on specific metrics that help us be sure we're making progress. In 2005, the Board of Regents put together a strategic framework which lays out our goals in key areas, such as affordability, enrollment, graduation rates, retention rates, research, engagement, and being cost-effective. Each of you has a copy of the framework in the notebook that we have or will be distributing to you. Let me review briefly with you the six overarching goals. The first and our highest priority is affordable access to high quality education. Affordable excellence is our most fundamental goal. We believe that the University of Nebraska should be accessible to all students who are qualified and want to attend. And then, when students get there, they should have the opportunity to learn from the very best faculty, study in the best classrooms and labs. Thanks to your partnership with us, in recent years we've been able to keep tuition increases moderate and predictable. And we're proud that each of our campuses is a tremendous value when you compare it to their peer institutions. We've maintained our investment in financial aid to reduce the cost barriers, and we're committed to programs like Collegebound Nebraska and preparatory academies and high schools around the state that we want to partner with to make the promise of higher education available to students who otherwise might not have that access. The second goal of that framework is to build quality academic programs with an emphasis on excellent teaching. That success depends largely on our ability to recruit and retain outstanding faculty. It's a highly competitive environment that we are in. However, our faculty salaries continue to lag behind those peers that we compare each of our campuses to. That's especially true at NCTA. The third goal is work force development. The University of Nebraska is an important talent magnet for the state of Nebraska. It attracts faculty whose teaching and research improves, we hope very much, the quality of life for individuals and students. We hope they'll stay in our state to live, work, and raise a family. We believe that the key to keeping our best and brightest is to give them a quality education that prepares them to succeed in today's knowledge economy. Our

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fourth goal is research. As a land-grant university, we have a responsibility to conduct research in all areas which will help people of our state lead healthier and more productive lives. We're doing so in a wide range of disciplines. At our last board meeting, for example, we heard about the work going on at the Institute of Ag and Natural Resources where the faculty are working to sustainably feed the future. Faculty affiliated with the Buffett Early Childhood Institute are developing innovative strategies for creating a more level playing field for disadvantaged children from birth to age eight. And the work of our Rural Futures Institute is really exciting. I think that has the potential to expand economic opportunity and improve the quality of life in our rural communities within our state. Our fifth goal is outreach. The university has a presence and a role in every county in Nebraska and we're trying to help Nebraskans start their own companies, increase the productivity and profitability of their farms, ranches, and businesses to enjoy a better quality of life. Our final goal is cost-effectiveness and accountability. This includes careful management of those funds that are entrusted to us from the state budget, from research funds, from tuition that students pay. We have worked hard to implement efficiencies and to try to identify opportunities to grow our revenue. I've seen this commitment firsthand through my work on the board's business affairs and audit committees, and I have great respect for and confidence in the financial management of our university. I hope this gives you just a little bit of the sense of the priorities that guides the board as we make decisions about the future of the university. We greatly appreciate your continued partnership and support for this important role that higher education plays in our state. Funding the university's budget request will have an important impact on affordability, quality, competitiveness, and service to Nebraskans. We would ask you for your favorable consideration. There will be others following me that will give you some more specifics about our budget proposal. Thank you very much, Chairman. [AGENCY 51]

SENATOR MELLO: Thank you, Chairman Phares. Are there anyone from the committee who has any questions? Senator Kintner. [AGENCY 51]

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SENATOR KINTNER: Well, thank you for coming out today. [AGENCY 51]

BOB PHARES: Thank you. [AGENCY 51]

SENATOR KINTNER: It's good to have you here. It's always good when the university comes. But I've got a question here now. [AGENCY 51]

BOB PHARES: Sure. [AGENCY 51]

SENATOR KINTNER: If I read this right, we gave you, in our preliminary budget, \$556 million more, and some change. You want \$587 million more, so that's about \$31 million additional. We've got about \$51 million left after our preliminary budget, some of it for tax relief, some of it for other spending priorities. If we gave you \$31 million more, that would pretty much wipe it out down to about \$20 million. And then if we wanted to give tax relief, then there's no other spending at all, because tax relief probably then is probably about \$20 million. Why is this \$31 million additional a year more important than tax relief or something else? [AGENCY 51]

BOB PHARES: Well, I think there's always competition for everything, Senator, as you well know, and it's apparent, as you serve on this committee certainly. But there are various sources in various places. We'd ask you to consider that what we are asking for is an investment, not an expenditure. We think it's an investment in the future of Nebraska and a good investment in the economic potential of our state. [AGENCY 51]

SENATOR KINTNER: You know, state of Illinois has been doing an awful lot of investments and look at them. They've been investing an awful lot of money. Now they're flat broke. [AGENCY 51]

BOB PHARES: Well, fortunately, we're not Illinois. [AGENCY 51]

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SENATOR KINTNER: Absolutely. [AGENCY 51]

BOB PHARES: So... [AGENCY 51]

SENATOR KINTNER: Absolutely. We don't have unfunded liabilities like they do. Thank you very much. [AGENCY 51]

BOB PHARES: You bet. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you. [AGENCY 51]

BOB PHARES: You bet. Jim. [AGENCY 51]

JAMES LINDER: (Exhibit 2) Thank you very much. I always envy people who have a good radio voice, as we just heard. I do not, so I appreciate your indulgence as I testify today. Chairman Mello and members of the Appropriations Committee, thank you for the opportunity to visit with you this afternoon. I'm Dr. Jim Linder, L-i-n-d-e-r, interim president of the University of Nebraska, and I'm pleased to join Regent Phares in speaking in support of the university's budget request. I'd like to spend a few minutes reviewing this request and will answer any questions that you might have. My interactions with the university are diverse and long term. I graduated from UNMC. Subsequently, as a faculty member, I taught both undergraduate and graduate students, provided clinical service, and did outreach, did research, and served in the administration. I've also been fortunate to see how our families' philanthropic involvement can benefit students and academic programs. This is our university and I think we have a lot to be proud of without hubris. I'm proud of what the University of Nebraska does for Nebraska. Regent Phares stated our highest priority of the board and the University of Nebraska is affordable excellence: affordable in that we want all qualified Nebraskans to have the opportunity to benefit from higher education, and

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excellence in offering programs that will allow our students to become the next generation of leaders in Nebraska. Today I'm asking your support for a budget that would allow the university to do three things to advance affordable, excellent education on behalf of all the people of Nebraska: One, to invest in our core needs, salary and benefits, utilities, information technology, and facility operations and maintenance. The first item, employee compensation, is by far the largest component of our operating budget and is fundamental to recruiting and retaining talented faculty and staff who teach our students, perform research, and deliver services. Unfortunately, we are not making meaningful progress toward the board's goal of paying our employees in line with market averages, especially at UNL and UNMC. A 3 percent increase in our salary pool, which is consistent with the faculty collective bargaining agreements at UNO and UNK, has been negotiated, and this will help us keep up with our peers, most of whom are planning similar increases in the coming year. Two, to make select, strategic investments that would benefit our students and faculty. These include Collegebound Nebraska, our needs-based tuition assistance program; initiatives to expand college-going among underrepresented students; and a salary catch-up effort equivalent to 1 percent of our salary pool to address some of the most significant, competitive gaps. And three, to move forward on exciting initiatives that will grow Nebraska's economy, meet select work force needs, attract talent to our state, and expand employment opportunities for our young people. This part of our request is captured in LB154, so I'll speak to that in greater detail later. For the moment, I will focus on the operational portion of our request. We are fortunate in Nebraska to have enjoyed strong support for the state's only public university. During the recent economic downturn, when many public universities experienced damaging budget cuts causing students to bear higher tuition and greater debt, Nebraska was able to advance, due in part to the stable base of state support provided. We are incredibly grateful to the policymakers, and members of this committee in particular, for their long history of recognizing that the university is part of the fabric that makes our state strong. Today the university is doing more than ever to serve the people of Nebraska and grow the state's economy. Enrollment is at its highest point in more than two decades and we're

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seeing impressive growth in areas critical to Nebraska's work force: agriculture, engineering, information technology, healthcare, and business. Our students are increasingly diverse and we have efforts to increase college-going among low-income, minority, first-generation, and rural students. We seek for students to promptly complete their degrees with minimal debt so they can join the work force. This has been aided by our use of new technologies that provide distance education to thousands of Nebraskans. The work is ongoing, but there are plenty of examples. For example, the College of Agricultural Sciences and Natural Resources, more than 90 percent of students have their next step in place at the time of graduation. The research of our faculty is improving the quality of life for the people in Nebraska and around the world. We are putting our talents and resources to work to address the significant global challenges of the day: hunger, poverty, cancer and disease, climate change, and national security. In recent years, we have launched several universitywide initiatives, engaging faculty on all four campuses and involving partners in the state and beyond, focusing on some of these challenges. These include the Robert B. Daugherty Water for Food Institute, the Buffett Early Childhood Institute, the National Strategic Research Institute, and the Rural Futures Institute. Through these and other initiatives, University of Nebraska has a seat at the table in some of the most important global conversations. Just a few weeks ago the [Omaha World-Herald](#) featured a team at UNO who are working with the Department of Defense on antiterrorism efforts. The work of UNMC and Nebraska Medicine in responding to the Ebola crisis has been widely documented. Our faculties are leading the way in determining how we meet the global demand for food, which will double by 2050. I could go on and on, but we have limited time. Our research brings economic benefits. The most recent data from the Association of University Technology Managers shows that the University of Nebraska is in the top 5 percent of institutions nationally in the number of start-up companies created. And we are in the top 20 percent for inventions, patents, licenses, and licensing revenue. All four of the campuses have and are developing more public-private partnership that leverage the work of our faculty to create more businesses and jobs, attract talent to our state, and expand opportunities for young people. The Legislature has been a partner in

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some of these key efforts: the nursing and allied health expansion at the University of Nebraska at Kearney; Nebraska Innovation Campus; and the Fred and Pamela Buffett Cancer Center, which even before it is finished is serving as a talent magnet, bringing professionals to Nebraska. We'll talk about more of these later under LB154. This is the briefest snapshot of our momentum. The University of Nebraska is in a strong position today thanks to the work of many, the generosity of alumni and friends, your support and partnership based on the shared goals of student education and economic competitiveness. What is important is that we can do even more to serve Nebraskans if the right investments are made. I want to be clear. We understand that the committee is balancing many important priorities. We are grateful for your support and the fact that you have provided preliminary recommendations. But I ask you to consider an investment in the University of Nebraska that meets our core needs and allows us to make real progress in the areas that we are convinced will benefit our state. A few quick comments on the committee's initial budget: First, you have recommended that any unexpended state appropriations at the end of the biennium not be reappropriated. I would note that we spend our appropriations each year except for funds that have been encumbered for near-term recruitment or programs. Second, I am pleased the committee has reaffirmed funding for the Veterinary Diagnostic Center, an important component of Building a Healthier Nebraska partnership. The facility is expected to be completed in 2017. LB660 would skip the 2015-2016 payment and extend the financing until 2024. Our preference is to restore the funding for 2015-2016. But at a minimum, the future funding figure for the project currently included in LB660 appears inaccurate and needs to be adjusted. State support is a vital ingredient in meeting the core needs of the university. As you know, there are two main funding sources that support our general operations: state appropriation, and tuition. These funds keep the University of Nebraska running. They pay for ongoing operation and maintenance of our facilities--important state assets where teaching and research takes place. For example, we need funds to operate and maintain the new Health Science Education Complex on the UNK campus so we can open the facility later this year. And the bulk of our operating budget, 80 percent, goes towards salaries and benefits. We are competing in

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a global market to attract and retain employees--the people who teach our students, who conduct groundbreaking research, and perform outreach in every county of the state. My view is that we should not ask Nebraska students and families to bear an undue share of these costs. For the past decade, the University of Nebraska has implemented moderate and predictable tuition increases, including a tuition freeze for all Nebraska students in the current biennium that was made possible by your support. We are proud of the results. Tuition at each of our campuses is well below the peer averages. UNL's tuition is the lowest in the Big Ten. Most of our students, on average, graduate with less debt than their peers. Our student loan default rates are well below national averages. This is in part because of private philanthropy. More than half of the undergraduates at the University of Nebraska receive financial aid, including 7,000 students who, because of their means, qualify to pay no tuition through the Collegebound Nebraska Program. Many of these are first-generation college students. Today it is more important than ever to expand access to higher education to even more students. Our economic competitiveness depends on it. In just a few years, 71 percent of all jobs in Nebraska will require postsecondary education. Many of the fastest growing jobs are in the STEM and healthcare fields. The Pew Research Center has found that the earnings gap between bachelor degree recipients and a high school graduate has never been greater, and by almost every economic measure--income, employment rate, likelihood of poverty--the cost of not going to college is rising. The facts are clear. If we want to meet the work force needs of the future and keep our economy strong, we must ensure that college education is within the reach of all students who are qualified and wish to attend. Maintaining low tuition rates compared to our peers and providing adequate financial aid are the fundamental ways to do that. Our plans for tuition will be discussed with the Regents once we know our state appropriation. But I can tell you that our commitment to moderate and predictable increases remains. I've spent the last few minutes talking about opportunities for investment. Let me say a word about a topic that is equally important--cost control. We must be accountable for the resources that you entrust to us, and I want to ensure you that we take this responsibility seriously. The University of Nebraska does more today

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than when I was a student, even while receiving a smaller percentage of the state's budget. We have managed to grow our research enterprise by winning grants and contracts. We have kept staffing and administrative spending to levels that are lower than our peer institutions. The number of university employees funded from tax and tuition dollars has remained relatively flat since 2000, despite significant growth in enrollment and research. And we have been successful in growing jobs using federal, private, and nonstate funds. In fact, 42 percent of the university employees, representing \$226 million in wages, are funded from sources other than tax and tuition dollars, an impact that might not exist without the university's ability to leverage nontax dollars. And since 2000 we have made \$80 million in budget reallocations, which reoccur annually in our efforts to find more savings. Mr. Chairman and members of the committee, thank you for your attention today. I will close by saying I'm honored to be serving as interim president at such an interesting time of the history of the University of Nebraska. Our success is rooted in the support of policymakers who have generously invested in affordable, excellent higher education, and I thank you for that support. I ask you to continue that partnership as we work to build a brighter future for Nebraska. With that, I'll be pleased to answer any questions that you might have. [AGENCY 51]

SENATOR MELLO: Thank you for your testimony, Dr. Linder. Are there any questions from the committee? Senator Stinner. [AGENCY 51]

SENATOR STINNER: Thank you. [AGENCY 51]

JAMES LINDER: Yes. [AGENCY 51]

SENATOR STINNER: You talk about tuition being the lowest in the Big Ten. How far is that lowest? I mean quantify that for me. [AGENCY 51]

JAMES LINDER: It depends whether you're talking about resident or nonresident tuition, but in comparison to some of our comparators, we're 50 percent lower than other Big

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Ten institutions. [AGENCY 51]

SENATOR STINNER: Any ideas on how to adjust that, or do...I know affordability is one of your big drivers and I embrace that, but. [AGENCY 51]

JAMES LINDER: You know, it's interesting if you look at the literature on what's happened to tuition around the country in the last decade, and a lot of states that were not as financially well managed as Nebraska really gutted their university support. So public institutions were located in a state but they weren't supported properly by that state. And there really is a teeter-totter effect. The less a state, any state, supports higher education, the higher tuition goes. So if we want to be certain to maintain access and affordability, I think it is important to have a balance of moderate tuition increases plus ongoing state support. [AGENCY 51]

SENATOR STINNER: Do you have a percentage of in state versus out of state as... [AGENCY 51]

JAMES LINDER: Terms of the number of students? [AGENCY 51]

SENATOR STINNER: Yeah. And what's that trend look like? [AGENCY 51]

JAMES LINDER: The trend differs a bit by campus. And at the University of Nebraska-Lincoln, and Chancellor Perlman can correct me if I'm wrong, it's about 20 percent out of state, 26 percent. And that number differs at UNO, UNMC, and UNK. UNO draws more students from the metropolitan area, so fewer are out of state. UNK has a very historically successful and aggressive program to bring international students to campus and that runs about 15 to 20 percent. If you look at the work force needs in Nebraska and you look at the number of high school seniors that are here, we really do wish to draw out-of-state students to Nebraska to have their undergraduate education, because a high proportion of those will stay and work in our communities. And I think

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the fact that UNL has a lower tuition than many other Big Ten schools is already showing in the fact that some students will choose to come to UNL from out of state to get a Big Ten degree without paying the tuition that they might have to in their state. [AGENCY 51]

SENATOR STINNER: So is that trend going up then? Okay. [AGENCY 51]

JAMES LINDER: Yes. [AGENCY 51]

SENATOR STINNER: The other question or a couple other questions I have, one is on wages. Where do we fit in the array of the Big Ten on wage? [AGENCY 51]

JAMES LINDER: At UNL, I think we are at 96 percent of our peer institutions, so we're below the average that we would wish to be. At UNMC we are also below, and that number, I believe, is 93 percent. UNK and UNO track closer to their comparators. [AGENCY 51]

SENATOR STINNER: I have...I'm going to refer to your audit because I started to go through this and was looking at some interesting trends. And one of the things that I had heard when we joined the Big Ten: We're going to get a lot more grants and a lot more money because we're part of that Big Ten. Where do I find that in the financial statements? And what should that look like versus maybe what it's looking like right now? [AGENCY 51]

JAMES LINDER: So there are two categories of grants and contracts we can talk about. One is federal grants from like National Institutes of Health and National Sciences, and then the other are industry contracts. And at the same time that we joined the Big Ten, you saw a tailing off of the stimulus initiatives that existed in Washington. So while we were growing at a very rapid rate, the rate of growth slowed a bit as we were affected by every institution in the country, that NIH and NSF had less money to allocate. But we

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still have at least maintained or grow. And then we've taken some other initiatives to tap into other sources of money, one of which was establishing the National Strategic Research Institute three years ago. That entity does specialized research for the Department of Defense and by having this contract, which is known as a University Affiliated Research Center, we can compete for contracts that otherwise we could not. And the first years of that have been positive with 33 contracts running \$15 (million) to \$20 million. Well-established UARCs can secure contracts that run \$50 (million) to \$100 million a year. And then what's interesting for all of this discussion is what the economic multiplier is for whatever entity you're in. And the National Institutes of Health uses a multiplier of 2.3, so if you get a NIH grant that's worth \$1 million, it's worth \$2.3 million to your state. So in part, Senator Kintner, that's where we hope these investments would pay off for the state. We've done some economic analysis that we'll talk about with LB154 that shows there's a good business case for many of these investments. We're sensitive to that point. [AGENCY 51]

SENATOR STINNER: Well, I was looking at your revenue side and the fed grants did kind of jump out at me because they have dropped from \$242 million to \$206 (million). Do you think that's a...is that a fairly stable number now or are we still trending down? [AGENCY 51]

JAMES LINDER: We hope it...I don't think it's trending down. I think it should trend upward. [AGENCY 51]

SENATOR STINNER: Okay, good. Just want to have you comment a little bit. When I started through this, operating revenues have increased. In 2012 they were \$1.2 billion. Trend is up and it looks pretty decent. Actually, it's up \$82 million from 2012 to 2014, which was 6.6 percent. However, when I looked at salaries, the trend there was from \$1.26 billion to...excuse me, there's a couple more zeros I'm leaving out, \$1.2 billion or \$1.1 billion to \$1.2 billion. It's about a \$106 million increase or 9.7 (percent). The differential there was about \$24 million difference. In other words, your salaries are

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going faster than their your revenue growth. Have you addressed that at all at the university level or have looked at that trend and where are we going with that?

[AGENCY 51]

JAMES LINDER: Well, you're trending into numbers that are probably more cogently answered by Mr. Lechner... [AGENCY 51]

SENATOR STINNER: Oh. [AGENCY 51]

JAMES LINDER: ...in terms of trends, but I think it's fair to say that, you know, salary expenditures are in part growing because revenue comes in from grants and contracts. So about 4,000 employees work at the university now that are funded by nontax dollars, but those still show up in our books as expenditures on our expenditure side. So the revenue comes in from other sources. Salary expenditure goes up because we have more people. But the actual pay that people are receiving certainly is not out of line with what the peers would be. [AGENCY 51]

SENATOR STINNER: Okay. I would expect that the revenue growth figure would at least be equal to the salary figure since that's the biggest part. Then you know you kind of worked through the bottom line and the same trends there, so. But I'll wait for Mr. Lechner. [AGENCY 51]

JAMES LINDER: And start working on that answer, Dave. (Laugh) [AGENCY 51]

SENATOR STINNER: It's just a trend that I thought needed to be addressed, and if you had a plan or something like that, you could comment on that. So that's all my questions. [AGENCY 51]

SENATOR MELLO: Thank you, Senator Stinner. Senator Kuehn. [AGENCY 51]

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SENATOR KUEHN: Thank you, Dr. Linder. I appreciate your testimony here today and also your emphasis on making sure that college is affordable and accessible. But I do want to address a few issues that Senator Stinner also kind of discussed with regard to tuition. So we've had a conversation prior where you discussed that about a 1 percent tuition increase equates to roughly \$3 million in revenue. Is that acceptable? Okay, just to make sure... [AGENCY 51]

JAMES LINDER: Correct. [AGENCY 51]

SENATOR KUEHN: ...we're clear there. When you talk about tuition increases, obviously the last biennium you were in a freeze. Historically and as you look forward, what would you consider, in your opinion, to be that moderate tuition increase that you referred to? [AGENCY 51]

JAMES LINDER: The tuition increase of course is the purview of the board. [AGENCY 51]

SENATOR KUEHN: Uh-huh. [AGENCY 51]

JAMES LINDER: And I suspect there are some board members who would think that moderate was 2 percent, 2 point something, and others might think it's 3 point something. I mean it's really influenced by what budget is prepared based on the appropriation that we receive. It hasn't been a topic that has been discussed among the regions. I think there is a sense that there should be an increase because you don't want to continue a freeze for too long and then suddenly have a need for a dramatic increase. So we want it to be predictable for the students. [AGENCY 51]

SENATOR KUEHN: So if you were to spring on your student population an announcement that said next year we're going to look at an 8.8 percent tuition increase, in the year following an 8.3, I'm assuming they would find that rather shocking and

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outside of that moderate increase? [AGENCY 51]

JAMES LINDER: I think so. [AGENCY 51]

SENATOR KUEHN: Okay. [AGENCY 51]

JAMES LINDER: And that underscores the need to have an appropriation that can meet the scope of our needs so we don't have to resort to that type of increase to meet our requirements. [AGENCY 51]

SENATOR KUEHN: My concern is that that's exactly what you're asking my constituents to do with your budget increase, is you're saying this year we are asking for an 8.8 (percent) and that needs to be funded by the taxpayers of Nebraska, and the year following an 8.3 (percent). So I think we need to put in perspective that that's equally as shocking for students. We would never want to do that to students and their families and their ability to financially plan, have expendable income. I think when you look at your request figure, what ultimately these dollars are coming from families, they're coming from working Nebraskans and Nebraska businesses. That 8.8 and 8.3 is a little bit shocking and so I think that's something we have to keep in perspective as we're trying to balance all these needs and competitive requests coming forward with regard to the university's budget. [AGENCY 51]

JAMES LINDER: I understand that. One of the specific reasons that we tried to isolate the economic development portion of our request was that we would prefer and believe that that should not necessarily be funded by student tuition increases. So we would like to see that money viewed as an investment with a clear understanding that it should have a positive economic impact for the state. But it does all roll up together, so I don't dispute your 8.8 number. [AGENCY 51]

SENATOR MELLO: Thank you, Senator Kuehn. Senator Kintner. [AGENCY 51]

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SENATOR KINTNER: Thank you for coming today. You know, I'm not a CPA like Senator Stinner. I'm not a doctor like the two guys to my right or probably like you. I'm just a regular old guy. So looking at an 8.8 percent increase and 8.3 percent increase, I would say "shocking" would be the word that comes to mind, that you'd have the gall to come and ask for that much money, to be honest with you. Because even if we gave you that money, the Governor would veto that. The Governor would never let that much money go. And when he recommended 3 percent and we agreed with him, that's kind of where the line was drawn. And to come in here and ask for over double that, I mean wow. I love the university. I was so pleased two years ago when we could fund it so we could hold tuition down and fund some of the capital things. I was thrilled by that. But to come back with this much, I thought if we gave you 5 percent, maybe next time you'd come back with only a 3 or 4 percent increase. And every couple years you come back, ask for a real big one. But this, this, I mean, are we going to see 8, 7, 6, 5 every single year, every two years from here on out? What's the trend going to be? [AGENCY 51]

JAMES LINDER: I do not think you would see that. I think, as I was alluding to, the magnitude of the percentage increase is reflected in large part by the economic enhancement initiatives that we laid out. And those include Innovation Campus, PKI, UNK, the Rural Futures Institute, the ability to expand the activities of the Nebraska Business Development Center, and STEM education. We wanted to isolate those as part of this request because we believe they were consistent with the messages that we heard from the Governor and many policymakers, that we want to see Nebraska being competitive in the global economy. So we don't have the capacity to put forward those types of economic development requests every two years because, I mean, this puts us where we want to be, but we're not large enough to do more than that. [AGENCY 51]

SENATOR KINTNER: You know, I understand I think for every million dollars that we spend in research, it creates something like 31 jobs. I think that was the number I heard a couple years ago, maybe a little higher or a little bit lower. But I understand that. But

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you know, I get the impression if you talk to people in my district, they'll say educate the kids, let the private sector do the economic development because they do it a whole lot better and a whole lot more efficiently. I don't know to what degree private does better than you guys. But I think this would be a very, very tough sell to go back and say to people in my district, hey, we just skimmed 8.3 percent more and 8.3 whatever percent the next year. I think that would be a tough sell. I don't know what the right number is. I don't know if it's higher than 3 or I don't know what it is and we'll talk about that.

[AGENCY 51]

JAMES LINDER: Uh-huh. [AGENCY 51]

SENATOR KINTNER: But I just want to tell you, I think this is a lot. [AGENCY 51]

JAMES LINDER: I hear you, sir, and I think I speak on behalf of all of us that if there's Rotary meetings or other things in your district, we're happy to come and meet with your constituents and explain what we want to do with these funds. [AGENCY 51]

SENATOR KINTNER: So I can hide behind you or I can just...you'll stay up front and I can hide behind you then? (Laugh) [AGENCY 51]

JAMES LINDER: We can be hand in hand. [AGENCY 51]

SENATOR KINTNER: All right. Thank you very much for answering the questions. Appreciate it. [AGENCY 51]

JAMES LINDER: Thank you. [AGENCY 51]

SENATOR MELLO: Thank you, Senator Kintner. Senator Bolz. [AGENCY 51]

SENATOR BOLZ: Good afternoon. While I'm pleased to hear you discuss a moderate

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and predicable increase, I think as we spend the day listening to university priorities, having a shared commitment to maintaining that moderate and predictable tuition expectation, it helps me as a foundation before we think about other issues and priorities. On par with manageable tuition for me is maintaining quality in the education staff. [AGENCY 51]

JAMES LINDER: Uh-huh. [AGENCY 51]

SENATOR BOLZ: And my experience is that salary isn't the only thing that contributes to quality within staff. I have two questions related to that. One is, what are the other things that we're doing to ensure quality in our education, our professors? And the other question is, what percentage of the professors who are teaching our students are adjunct as compared to professional teachers? [AGENCY 51]

JAMES LINDER: So I'll take those in order. You know, teachers, educators like to interact with students and they like to feel that they have control over that interaction. So there's been a lot of dialogue in the last couple years about how the learning environment is changing as students have different expectations when they come to the university. If you go to the UNL campus and see the Brace Laboratory--bears that name, it doesn't have anything to do with braces--but it's just a wonderful environment for students to work in small groups on problems. And then the faculty member, instead of standing in front of a group of students and droning on, is in the middle of the room and will go from table to table to help them with their laboratory work. If you consider some of the things that are happening in terms of simulated learning on all the campuses but particularly what you'll hear about from UNMC, faculty are eager to adopt and implement those new technologies. So I agree that almost every faculty member could increase their salary by going into some aspect of the private sector, but they view their role at the university in some of the same way that we view our roles as parents. You know, you like to bring the next generation forward and so that's important. With respect to your second question about adjunct teachers, the tenure density on each of

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our campuses is fairly unchanged, so it's at around 70 percent. Now you will have a number of adjunct faculty on each campus, but to the...their involvement differs a lot. So you might have a faculty member who is teaching in the College of Business at UNO and that person may teach a few lectures a year but he still is technically an adjunct faculty member. And if you read that there are 800 faculty, adjunct faculty at UNO, that person is counted. But he or she may have retired from a successful business career and wants to give back by that type of involvement, so. [AGENCY 51]

SENATOR BOLZ: Are those tenured faculty, that 70 percent, are they teaching 70 percent of the students? I guess the question I'm asking is the average student who comes in, are they significantly likely to be taught by a professional instructor or what's their experience going to be? [AGENCY 51]

JAMES LINDER: I think at each campus it differs a bit. At UNK they would likely be taught by many...most likely they're full-time. At UNO you may see faculty who are teaching students who have, you know, this engagement with the business community. At UNL, the individuals who are teaching students would range from tenured full professors to some adjunct faculty to some graduate students who may be in the final years of their doctoral degree. And there could be all types of faculty in the same course. A laboratory section might be taught more by graduate students than the main lecture. [AGENCY 51]

SENATOR BOLZ: I think it's important to remember those...what I consider to be those two basics: tuition and classroom quality. [AGENCY 51]

JAMES LINDER: I agree. [AGENCY 51]

SENATOR BOLZ: My other question and my last question is your reference to the Veterinary Diagnostic Center. We've gotten some information that there was a delay in the beginning of that project and that we might be in a position to, as you reference it,

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skip the payment. You're arguing that that's not the right strategy. Can you just elaborate on why these funds are needed now? [AGENCY 51]

JAMES LINDER: I think the funds are needed to make sure that we have the project go forward at the proper rate and that we can meet the bonding requirements of that, other aspects of that. But, Dave, do you want to elaborate on that? [AGENCY 51]

DAVID LECHNER: (Inaudible) go through (inaudible). [AGENCY 51]

SENATOR MELLO: Doctor, either one, could we just hold off till Mr. Lechner comes up and testifies? Is that a possible, Senator Bolz? [AGENCY 51]

SENATOR BOLZ: That's fine. [AGENCY 51]

SENATOR MELLO: Okay. [AGENCY 51]

SENATOR BOLZ: Thank you. [AGENCY 51]

JAMES LINDER: You're welcome. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Senator Haar. [AGENCY 51]

SENATOR HAAR: Yes, we have so much paper here, okay? So here's a paper that lists the economic competitive investments. [AGENCY 51]

JAMES LINDER: Yes. [AGENCY 51]

SENATOR HAAR: Okay. Are you familiar with that? [AGENCY 51]

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JAMES LINDER: Very much so. [AGENCY 51]

SENATOR HAAR: Okay. A lot of questions came up over these individual items when we were going through the preliminary budget. And maybe I'd ask the Chairperson, should we ask those now or will they come up with other bills? [AGENCY 51]

SENATOR MELLO: By all means. [AGENCY 51]

SENATOR HAAR: Okay. [AGENCY 51]

JAMES LINDER: Many of them will come up in LB154. [AGENCY 51]

SENATOR HAAR: Okay. So any of these you can just defer because I know we'll get to them later then. First of all, do you have any kind of priority set on these items? I mean you know as well, you're not going to get all this money and so what are your priorities? [AGENCY 51]

JAMES LINDER: So as you look at this document you can see that of the initiatives that are listed, many of them are already receiving money from our budget and they would continue to receive money from our budget. And what our goal would be is to accelerate some of these initiatives. So for example, Business Development initiatives, and the Nebraska Business Development Center is a good example, what it can do in the state is kind of lumpy and it depends how well they're able to win grants from the Small Business Association. What we would like to do is put them on a more stable course so that they could have individuals throughout the state that can help small businesses win grants, develop business plans, and grow. Then you have new initiatives in there, like the Biomedical Institute, which takes advantage of some of the development activities that will occur around the Med Center. That's not been funded before, but it represents a tremendous growth opportunity. The Rural Futures Institute, in the last year, Chuck Schroeder, who runs that, has impacted about 100 county...100 different cities and it's,

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you know, funded right now at \$1.5 million. It's an activity that is distinct from Extension but they could do more if they had more people to more regularly interact with those counties. So I think if the entire \$20 million was not granted, then we would look at the plan each of these entities had, what they would do with additional money, and we would fund what we thought would be the most economically impactful part of that plan. And so our priority is to do the right thing for Nebraska with the money that we receive. And since this is an economic competitiveness activity, they have to show that it is going to result in some change. [AGENCY 51]

SENATOR HAAR: Okay. Now on this sheet again, going back to this one and then our original budget that we worked through the first time, for example, take the Rural Futures Institute, that's one that you just mentioned. You're asking for \$750,000 the first year and \$1.5 million the second year. I don't see how that's reflected on this paper. Do you? [AGENCY 51]

JAMES LINDER: I'd have to pull out the original budget that you're referring to, to answer that, why that difference. [AGENCY 51]

SENATOR HAAR: Okay. Because I'm trying to crosscheck some of these things: Peter Kiewit Institute was \$2 million the first year and \$4 (million) the second year. And so I'm not quite sure what...maybe we can ask that question later to how to get these two together. [AGENCY 51]

JAMES LINDER: Okay. [AGENCY 51]

SENATOR HAAR: So I guess are you saying...now, on our preliminary budget these were all broken down into many parts and we said yes or no. And I'm not quite sure how your budget works, so would that mean that whatever money we put in that final budget you consider a lump sum and then you divvy it up? Or are we actually telling you how we want that money to be spent? [AGENCY 51]

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JAMES LINDER: We would prefer that a lump sum be granted for these economic development activities as opposed to individual funds being earmarked, because that allows us to make sure the people that are ready, willing, and able to use those monies can use them. [AGENCY 51]

SENATOR HAAR: Okay. [AGENCY 51]

JAMES LINDER: And it is difficult if money is earmarked out of our core operations for economic development activities because that basically reduces the money we have for salary and operations. We believe these should be viewed separately. [AGENCY 51]

SENATOR HAAR: Okay. And the numbers I was just giving you came out of agency issues, operations. And again, all of these things are listed separately and we said yes or no to them. So I don't know, Mr. Chairman, how we do that in our budget. [AGENCY 51]

SENATOR MELLO: I think, Senator Haar, I think that some of your questions may be best directed to Senator Speaker Hadley and the university on the next bill, LB154, which is a reiteration, so to speak, of the university's economic competitiveness request in their budget. But it may be best to hold on to some of those. [AGENCY 51]

SENATOR HAAR: I'm willing to wait. Okay. And then these are the sheets of paper, if someone wants to look at those, from our preliminary budget and also the one we just referred to. So when that testimony comes up you'll know what we're referring to. [AGENCY 51]

JAMES LINDER: Thank you. [AGENCY 51]

SENATOR MELLO: Senator Hilkemann. [AGENCY 51]

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SENATOR HILKEMANN: Dr. Linder, how much money is in the University Foundation?
[AGENCY 51]

JAMES LINDER: The assets of the foundation, first of all, it's important to note that 99 percent of the assets of the University of Nebraska Foundation are designated funds, so the foundation has very little latitude in how they are spent. And that number is in the neighborhood of \$2.3 billion. So there's very little cash floating around in the foundation that can be put into new initiatives. They really have to find a donor who wants to build a building or to fund a scholarship or to fund a professorship. And that is probably the most misunderstood fact of the NU Foundation. [AGENCY 51]

SENATOR HILKEMANN: So I know they're designated but, from that, what percentage do these designated funds cover of the university's budget? [AGENCY 51]

JAMES LINDER: Is that a question I know the answer to? It, you know, the...I don't know the answer to that question. [AGENCY 51]

SENATOR HILKEMANN: Okay. [AGENCY 51]

JAMES LINDER: Do you know offhand? [AGENCY 51]

DAVID LECHNER: About \$35 million. [AGENCY 51]

JAMES LINDER: Thirty-five million dollars, uh-huh. [AGENCY 51]

SENATOR HILKEMANN: What percentage of the students at the university receive scholarship aid? [AGENCY 51]

JAMES LINDER: About 70 percent. [AGENCY 51]

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SENATOR HILKEMANN: How much of that comes through the foundation through these designated...? [AGENCY 51]

JAMES LINDER: A hundred and ten minus...so... [AGENCY 51]

DAVID LECHNER: (Inaudible) 35 (inaudible). [AGENCY 51]

JAMES LINDER: Yeah. So we'd have to, to get you a precise answer, which we will, we will check with financial aid, because it will differ a bit from campus to campus. And some of the financial aid is reflective of discounts that we apply because we have university funds to cover that tuition, and others are designated scholarships that somebody might be funding a scholarship for a business student. But it's important because as we've contemplated tuition increases in the past, we try and either match foundation funds or university funds so that the students who have the need are not adversely impacted by that tuition increase. [AGENCY 51]

SENATOR HILKEMANN: See 70 percent are receiving some type of financial aid,... [AGENCY 51]

JAMES LINDER: Uh-huh. [AGENCY 51]

SENATOR HILKEMANN: ...and I realize that that can be from 100 percent aid to maybe a few hundred dollars. What would be the average percentage of discount that they receive due to...or reduction in tuition we have from scholarship aid? [AGENCY 51]

JAMES LINDER: Well, averages of course are sometimes not useful. If you look at 50,000 students, how much is their tuition discounted, is your question, on average? [AGENCY 51]

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SENATOR HILKEMANN: Well, right. [AGENCY 51]

JAMES LINDER: I'd again have to calculate that. I can't give you that answer off the top of my head. [AGENCY 51]

SENATOR HILKEMANN: And most of that scholarship aid does come through the foundation, is that correct, through these designated...? [AGENCY 51]

JAMES LINDER: Scholarship aid can come through the foundation. We also do receive some monies directly from large foundations in Nebraska that choose to fund scholarships: Avenue Scholars, the Susan T. Buffett funds, and so forth. [AGENCY 51]

SENATOR HILKEMANN: Thank you. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Senator Haar. [AGENCY 51]

SENATOR HAAR: Yes. Going back for a minute to faculty salaries, in our preliminary budget it gave some numbers and you said UNL is, for example, now at 96 percent. Tell me a little bit more. Some of the campuses are unionized and negotiate. And then that pretty much automatically flows to the other campuses, or how does that work? Tell me a little bit more. [AGENCY 51]

JAMES LINDER: When both UNO and UNK joined the University of Nebraska System, they were already unionized campuses. [AGENCY 51]

SENATOR HAAR: Okay. [AGENCY 51]

JAMES LINDER: And so they do have a separate negotiation for their salary increase. If you look at it historically, I think it's fair to say sometimes they did better than the

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nonunionized campuses, sometimes they did worse, and sometimes it was the same. And it is influenced by the peer groups, the amount of dollars that is appropriated to the university and, you know, what we can do to bridge gaps in salary. [AGENCY 51]

SENATOR HAAR: And right now, from what you said, the union people are doing better, right, in terms of salary? [AGENCY 51]

JAMES LINDER: Well, the union people are guaranteed a 3 percent increase by our agreement for the coming biennium. In the preceding biennium, I believe that they received a lower increase than the nonunionized campuses. [AGENCY 51]

SENATOR HAAR: Okay. [AGENCY 51]

JAMES LINDER: So "better" is all relative. [AGENCY 51]

SENATOR HAAR: Sure. So what UNL and UNK did isn't necessarily what the other campuses get. [AGENCY 51]

JAMES LINDER: Well, you know, the...what the university administration--which includes the Regents, President Bounds that's coming in, when he works up the budget--will have to do is whatever funds are appropriated by this committee that can be used for salaries, we would endeavor to have a market competitive salary increase. And if the dollars are not sufficient, then that brings in the term of a "reallocation," which is a synonym for a budget cut. So a chancellor who manages the profit and loss of his campus has to find other dollars to make sure that that salary increase is there. And so that is reflected in that \$80 million a year of ongoing funds. It probably happened at times where there wasn't sufficient salary dollars, and it may be there's fewer teachers. You know, to Senator Bolz's point, you know, one of the way you can address that issue is fewer...more adjuncts and fewer full-time faculty, which affects the quality. We would rather have our salary increase fully funded. And if you look at the fact that 80 percent

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of our expenses are salary and benefits, if there's a 3 percent increase in our budget, then basically 2.4 percentage points of that increase is going to be consumed by salary, give or take a little. [AGENCY 51]

SENATOR HAAR: Yeah. And how do you dance with the community colleges on people, you know, going two years and then coming to the university? [AGENCY 51]

JAMES LINDER: In my experience, which is ten months, there's a great relationship between the community colleges and the university. And we've tried to improve that by having things like the reverse transfer portal where university credits can go back to count for an associate's degree, and the recently launched transfer portal where a community college student can immediately see how their courses translate to a degree program at the university. And all of the community college presidents, you know, interact closely with the provost's office in that regard. And we're also...just this morning I had communication with Randy Schmailzl at Metro in Omaha on how we can help their new program on basically technology development. They have some inventions and commercialization opportunities. So they'll be working with the tech transfer office at the University of Nebraska Medical Center so they don't have to go out, hire their lawyers and marketing people because we can provide that service for them. [AGENCY 51]

SENATOR HAAR: Do you have any idea, just a real, you know, rough estimate, of what it would cost to do your first two years of junior college versus the university? And I know it's a different experience, but I mean young people are making those decisions now based on cost, I'm sure. [AGENCY 51]

JAMES LINDER: Uh-huh. I do not have an estimate of that. It would be less but it would differ, of course, whether one wanted...what they wanted to pursue. If their goal was to become an engineer, then they would find themselves...they couldn't complete their first two years. [AGENCY 51]

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SENATOR HAAR: First two years, right. [AGENCY 51]

JAMES LINDER: ...and meet the requirements required for the accreditation of that degree. So it's a tough one to answer. And you notice there are some differences in tuition on our four campuses, you know, with the health sciences, for example, having different tuition rates than someone who might be pursuing a liberal arts degree on one of the campuses. And you know, I'm of the view that there's a wide variety of ways for people to learn the skills they need to learn to contribute to society. I don't subscribe to the fact that everybody should go right off to a four-year college. They may be very satisfied by being in a technical program, and I'm thankful that we have great chefs coming out of Metro so that we have that skill in the work force. You'll have some people that start off in community college and they get on fire, in terms of their intellectual curiosity, and then they want to undertake a four-year degree program. [AGENCY 51]

SENATOR HAAR: Uh-huh. [AGENCY 51]

JAMES LINDER: So it's...there's rarely a linear path to anything in life, as I suspect all of us here have personally experienced. Right? [AGENCY 51]

SENATOR HAAR: (Laugh) Not at all. Yeah. By the sheets I gave you, why don't we give that to one of the interns. They can make a copy so I can get my paper back. But then I want to ask those questions later on when we get to that bill. [AGENCY 51]

JAMES LINDER: Uh-huh. [AGENCY 51]

SENATOR HAAR: Thank you. [AGENCY 51]

JAMES LINDER: Thank you. [AGENCY 51]

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SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Dr. Linder. [AGENCY 51]

JAMES LINDER: Thank you all. You'll see me again. [AGENCY 51]

KEVIN KNUDSON: (Exhibit 3) Chairman Mello and members of the Appropriations Committee, my name is Kevin Knudson and I am the student regent and student body president representing the University of Nebraska-Lincoln. I'm honored to be here today on behalf of all four student governments of the University of Nebraska to offer our unified support for the university's budget request. First, let me tell you a little bit about myself. I'm a senior from Omaha majoring in political science and communication studies. On campus I've been an active member of my fraternity and have served as new student enrollment orientation leader in addition to my time in student government. One thing I've learned from being so connected with the students during our time at UNL is that the costs of college are continually on students' minds. Our student senate regularly discusses this issue and I know my fellow University of Nebraska student regents would tell you the same thing. As students at the University of Nebraska, we know we are getting a great education for a tremendous value, and we appreciate that very much. We are thankful that the Legislature has helped to make it possible for the university to keep tuition rates low compared to our peer institutions on all four campuses. For example, at UNL our tuition is the lowest in the Big Ten and our student debt level is almost \$5,000 less than the Big Ten average. UNK, UNO, and UNMC are all also great values compared to their peer institutions. Even though our sticker price is low, we are also lucky that most of our students receive financial aid. As a full-time student, I can assure you that every little bit helps. More than half of all undergraduates and 70 percent of UNK undergraduates receive grants for scholarships that they do not have to pay back. Many students are working one or more jobs to help pay for school, and those scholarships can help offset the cost and allow us more time to study or participate in activities on campus. My fellow student regents and I hope you'll consider supporting the university again in the next biennium so we can continue to maintain our

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affordability. My time on the Board of Regents has taught me that the level of state appropriations that the university receives is one of the most important factors in setting tuition rates. Without enough state appropriations to pay for our core operating needs, it is difficult for us to keep tuition low if we also want to maintain quality. Students do understand there is a price tag for quality, and we know that when we pay our tuition bills we are paying for things like classroom costs and good professors. The students I talk to believe that the university is using our tuition dollars in responsible ways that benefit us. But at the same time, any increase in tuition can be a challenge for students so we should do whatever we can to keep those at a minimum. State support can help us do that. Before I close, I want to mention one other point. I know that you'll be taking up LB154 a little later today, but I want you to know that the university's economic competitiveness proposal has the full support of the four student regents. We think the initiatives included within LB154 open up a lot of expanded opportunities for students in terms of education, research, internships, and jobs. As a few examples, I know the students at UNK are excited about the nursing and allied health facility in Kearney that will provide new job opportunities for them in rural Nebraska. At UNMC, the students are very supportive of the new Biomedical Institute where they will have the chance to work on cutting-edge research projects with faculty. The university's growth plans for the Peter Kiewit Institute are exciting for students at both UNO and UNL because we understand that engineering and IT are where many of the good-paying jobs are, and we want to make sure more students can get on that path. And the students I talk to at UNL are excited that Innovation Campus is up and running. Students in the Department of Food Science and Technology are especially eager to move to Innovation Campus later this year and to get the chance to work more closely with faculty and private sector leaders on important research projects. So we think the initiatives proposed in LB154 are very student focused and would accomplish the goal of creating more education and job opportunities for us. The four student regents encourage you to provide support for that proposal on top of your investment in the university's core operations. Thank you for your consideration. And with that, I would be happy to answer any questions you might have. [AGENCY 51]

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SENATOR MELLO: Thank you for your testimony Regent Knudson. Could you please do the committee a favor and spell your name for the public record? [AGENCY 51]

KEVIN KNUDSON: Yes. Kevin Knudson, K-n-u-d-s-o-n. [AGENCY 51]

SENATOR MELLO: Thank you so much. Are there any questions from the committee? Senator Haar. [AGENCY 51]

SENATOR HAAR: You don't have to answer. Is political science a science? No. (Laugh) What do you see as we have to do in Nebraska to keep you here once you've graduated? [AGENCY 51]

KEVIN KNUDSON: Well, I think the communities in which the institutions are at need to do a good job of making sure it's something that postgraduates see benefit in. I see, particularly since I'm from UNL, I see a lot of investments made in the Lincoln community that make it an appealing place to live. You know, we have the arena. We have, you know, some nightlife opportunities that people don't feel that once college is over Nebraska doesn't hold anything for them until they're 30 years old. But I think the best way that we can make sure that people are staying in Nebraska after they graduate is making sure that they're going to institutions within Nebraska. The students that I go to high school with that leave seem to be less likely to come back than students who come here are to stay. So making sure that a student that has grown up in Nebraska and gone through high school in Nebraska is taking that next step in their education within the state as well. [AGENCY 51]

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

SENATOR MELLO: Senator Kintner. [AGENCY 51]

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SENATOR KINTNER: Thank you for coming. No tough budget questions or anything.
[AGENCY 51]

KEVIN KNUDSON: (Laugh) All right. [AGENCY 51]

SENATOR KINTNER: You know, I was president of student government at Wright State University. I think I was busy trying to defund feminist studies and get the university to divest its investments in the Soviet Union. So times have changed just a little bit, I think. And I'm glad your involved. One question, since you're here. What are the concerns of young people at the university, concerns about life, concerns about issues, concerns about education, the state? What are their concerns? [AGENCY 51]

KEVIN KNUDSON: You know, as the student government president, we do a lot of work with other groups in the Big Ten, and two of the main focuses that we have right now are mental health funding and sexual assault. Sexual assault on college campuses is something that has gained national spotlight recently. So we at UNL and our Big Ten counterparts are taking a closer look at some of the practices that go on from an administrative level, to make sure that we're doing everything we can so that, one, we're preventing acts of sexual violence and, two, when those do occur, we're making a community that is comforting and welcoming to victims to come out and tell their story. So those are the two things that really have, I would say, a broad student focus. Myself, I know you guys have been working on LB439, which is the good Samaritan legislation. That's something that ASUN student government have been working very closely on for the past year, so that's something that we're very passionate about as well, so.
[AGENCY 51]

SENATOR KINTNER: Well, I had no idea what you were going to say. Well, thank you very much for coming. Appreciate the answer. [AGENCY 51]

KEVIN KNUDSON: Yep. [AGENCY 51]

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SENATOR MELLO: Any other questions from the committee? Senator Haar. [AGENCY 51]

SENATOR HAAR: Was that investment or divestment in the Soviet Union? [AGENCY 51]

SENATOR KINTNER: Divestment. [AGENCY 51]

SENATOR HAAR: Good. We're going to have to talk about divestment in the carbon industry. (Laughter) [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Senator Kuehn. [AGENCY 51]

SENATOR KUEHN: Thank you, Regent Knudson, for stopping by this afternoon. As a poli sci major and as a student regent, will ask you a question. Just following up in your testimony, you indicated that you and all of the four student regents were in full support of LB154 and the economic development package. So just a quick introduction into the world we get to deal with, as a poli sci major, President Linder had stated that it's his opinion that it is not up to the students to fund that economic development package to the tune of about \$10 million in extra appropriation. As a student regent who said that has the student regents' support, that package, what component of that do you feel as a student you should bear financial responsibility for expanding on campus? [AGENCY 51]

KEVIN KNUDSON: Well, the best way I can wrap my head around that is something like the funding that might go to Innovation Campus. As a student, I can see some clear benefits that that would have to me as an undergrad, you know, being able to work with, you know, ConAgra who's coming in. If, you know, political science is pretty soft on the

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science, but as a political...or as a...if I'm into, you know, the food science and technology, having the opportunity to work with one of the largest companies in the industry, that has immediate benefits right away in my chances at research opportunities, and it's something that I can use as I move into the job market. It makes me more competitive than somebody that doesn't really have those opportunities. So there are certain things that you can definitely see in immediate benefit from the student, and it's something...there's others that have...certainly have benefit but you...they don't have necessarily the easiest sell to students. Something like we talked about the Rural Futures Institute. The average student might not understand what benefit that has to them or, you know, even to the state of Nebraska. But I have one of my...one of my good friends got involved in that and he spent a lot of time out in Red Cloud, and they spent the entire summer working on the Willa Cather House. And him having that really intimate relationship with something like that, I mean if he was here he'd be singing the praises. So there are things that students will immediately gravitate towards having benefits and there's things that, you know, if the university continues the job of selling these benefits, more and more students will really just, like I said, sing the praises of those. [AGENCY 51]

SENATOR KUEHN: Thank you. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Regent. [AGENCY 51]

KEVIN KNUDSON: Thank you. [AGENCY 51]

SENATOR MELLO: Next testifier on Agency 51. [AGENCY 51]

DAVID LECHNER: (Exhibit 4) Good afternoon, Senators. My name is David Lechner, L-e-c-h-n-e-r. I'm senior vice president and CFO of the university and I'm here to provide you with our annual report on the operations of our self-insurance health plan. If

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I may ask for a moment, Mr. Chairman? [AGENCY 51]

SENATOR MELLO: Absolutely. [AGENCY 51]

DAVID LECHNER: Senators, if you and we at the end of the day want to think that all this is very valuable what we do in what we are actually accomplishing, take a look at the young man before me. I am really pleased to follow him. When we unleash people like that on this economy, there's no doubt we can grow and grow and grow. So I'm very proud of Kevin and the other students you're going to see today. The University of Nebraska is proud to provide a cost-effective, competitive health insurance plan to its employees and families. The plan is well-managed. It provides competitive benefits, operates at a fraction of the cost of similar plans, and is favorably positioned to serve employees' future needs despite an increasingly uncertain healthcare industry. The management of that plan does not occur in a vacuum. We utilize the advice and counsel of a number of entities: Blue Cross Blue Shield; CVS/Caremark; Milliman, our actuaries. The Board of Regents, the university president, the campus chancellors, and other university leaders all work in concert to provide input and oversight. Matter of fact, the last few years we've been executing against a plan that we set forth with Senator Harms and the Performance Audit Committee. That plan laid out plan operations, reserve strategies, and also leads to this annual report to you. Plan performance is influenced by three factors, and you're going to hear this every year regardless of whether it's a state plan, our plan, any other plan: high-cost cases, cases over \$30,000 each per year; the growth in speciality pharmaceutical drugs; and regulatory and plan design issues. For example, the PCORI fees that come out of the Affordable Care Act, quick \$1.3 million out of our plan. Those are the changes that can affect us from now on. The health plan performed well in 2013, meeting expectations by breaking even. Expenses were only 1.9 percent up year over year, well below a 3.3 (percent) national average that was put forth by Aon Hewitt, and significantly lower than the 6 percent trend forecasted by our actuaries. The primary reason behind that low trend--a reduction in high-cost claims. But lurking behind that problem is those increasing specialty drug

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costs, which went up 13 percent in the year, offset gains we would have otherwise realized. While we will submit our 2014 report to you later this year, I thought you might appreciate a brief status update. We're still analyzing the details but I can share with you claims were up 3.6 percent in 2014, another good year. Although this experience was higher than 2013, it still remains below that ten-year trend of about 6 percent. We redirected about \$7 million of reserves into the plan in 2014, a plan that was expected and was part of a premium holiday, which is one tool we used as a broader strategy to carefully draw down those fund balances. There's been a fair amount of discussion with our board, our senior leadership on this topic and what an appropriate level of fund balances should be. I understand it's been a topic of discussion for you as well and is important, so let me spend a few minutes discussing that matter with you. First, fund balances are the cornerstone of financial flexibility. Much like your savings accounts at home, they're one-time resources that act as a buffer against shocks and unseen risks. For instance, reserves saves us from buying stop loss insurance which is estimated at 3 to 6 percent of claims per year. So we avoid that cost by having reserves. Second, a little history may provide some important context as to how we came to where we are today. When I began here in 1999, the health plan was headed down the path to bankruptcy. I had the unfortunate situation of coming in front of you and talking about that. That was captured in a quote in the LFO's 2000 biennial report which said: Under current revenue and expenditure trends, the university's healthcare trust fund will be depleted by October 2000 and a three-month claims run off reserve will be depleted by May of 2001. The situation was so bleak that in 1999 the Board of Regents submitted a \$5.4 million deficit appropriation to this body. It was such a dire situation that I never want to put any of you or our Board of Regents in again. Thus, beginning in 2000, we made some tough decisions and implemented a number of strategies to immediately turn around the plan's performance. First, we dramatically hiked prices, deductibles, and copays on employees and to their departments, and those price increases not only consumed a good part of those employees' salaries in those days but also forced the university to make significant budget cuts to free-up resources through internal allocations. Second, another very important factor, we "de-pooled" nonactive

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employees; thus, eliminating the responsibility of any hidden cross-subsidies to our active employees and to the state. Third, the employee price increases, deductibles, and copays, passing a greater percentage of the cost on to our employees, we believe had an impact on employee behavior and we began to see a decline in our cost trends. Add in the recession and people being a little more frugal with their wallets, and you have some of the reasons we believe we have favorable trends compared to most. About four years or so after our course corrections--a little more history--the state's plan began to experience similar trouble. In the 2005-2006 biennium the state's plans were given a 15 percent appropriation increase with the university being given the same percentage increase but on a much smaller base. Fortunately, our plan had righted by that time and our projections indicated we'd only require 8 (percent) and 3 (percent) in those years. To stay true to this committee's funding directions, the remaining unutilized portion of that appropriation was directly deposited into the health trust. This funding was subsequently rolled into premiums on an orderly basis in order to keep from unnecessarily overcharging: in other words, charging the same premiums to federal grants, book stores, unions, parking operations, and other student facing enterprises. Didn't want to raise those prices unless we had to. At the end of 2014, our plan has \$106 million of fund balances after incurred but not reported claims. This is about nine months of plan expenses and, as indicated in our report, we've targeted holding, at a minimum, six months of plan expenses. And this level of reserves gains support from 35 percent being a common contingency reserve that I obtained from Blue Cross Blue Shield. If you add in incurred but not reported on top of that, you approximate about 50 percent. So there's the six months. Six months or even nine months is not a lot when you consider the time frames that we all work with between the committee and the university. For example, our board began planning for the current 2015-17 biennium in January '14, with the ultimate approval of that budget submission to you occurring in July. So three or three and a half years elapse from the time we start talking about our submission and get approval to when we know the final results--pretty long time frame. While I'm confident with our projections, it's obvious that many unexpected events can occur over three-plus years. That's why we strongly believe having adequate fund

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balances is key to being in a position to respond to and mitigate future unknown events and very, very long planning horizons. We do not think that dramatically lowering funding to the plan until fund balances are forced to a six-month goal would be a prudent step. We've modeled the scenario and, frankly, the results concern me, given the one-time nature of those fund balances. And the very real potential for return to higher claims growth that we saw not more than four and five years back and the uncharted and uncertain incursions of the federal government into healthcare. Reducing funding abruptly could easily set plan operations and university employees and set them up for a fiscal cliff since base funding would need to increase significantly once the one-time funds are gone. By our estimate, reducing funding to health would cause the need for about a \$10 million catch-up in the second year of the biennium. That's roughly two-thirds of the 3 percent that's targeted in the current committee recommendation, and that's just to take care of healthcare. Many states ran into this exact problem during the recession when they used one-time funds, the stimulus funds, to plug recurring budget shortfalls. Fortunately, this committee, this state had the foresight to use stimulus dollars for one-time issues and allowed Nebraska to avoid those pitfalls that others are now suffering through. I hope it is clear that I agree with the counsel we've received that fund balances should be drawn down. However, I continue to advocate this should be done in an orderly, strategic manner. The university has attempted to do that over the past two years by taking cautious, small steps, providing one-month premium holidays in '13 and '14, those two holidays being also the same amount of holidays offered by the state in '13. These one-time funds have allowed us to make a number of strategic investments in student recruitment, instruction, research, and capital projects. In closing, I want to sincerely--and if you're following me word for word you'll see that that is underscored--sincerely thank the committee for input and counsel regarding our health plan. I do value this dialogue and hope we can work together informally to continue to manage this complex situation and work toward it wisely and cautiously. Given the dire situation we were in 15 years ago, I am proud of where we are today. We would not be in the position we are without your strong support and partnership. And I'd be happy to answer any questions you might have. [AGENCY 51]

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SENATOR MELLO: Thank you for your testimony, Mr. Lechner. Are there any questions from the committee? Senator Stinner. [AGENCY 51]

SENATOR STINNER: I may be a while on this one. I hope that... [AGENCY 51]

DAVID LECHNER: Can we start the light, (laughter) Mr. Chairman. [AGENCY 51]

SENATOR STINNER: David, you spent some time in my office going through this report. [AGENCY 51]

DAVID LECHNER: Yes, sir. [AGENCY 51]

SENATOR STINNER: And we talked about a lot of different things and you should be congratulated that the balance is where it is, \$106 million. One of the computations you did for me was to tell me what level you really needed to be at. So I took those numbers, \$135 million divided by 12 times 6 equals \$67,500,000. And we're kind of on a search to find additional dollars so that we might be able to fund the University of Nebraska's special projects. So it's in that spirit that I'm looking at this fund and I'm saying and you're saying it's overfunded. You want to give the employees a holiday, work it down through some other mechanism. I would submit to you that as I looked at the plan that you indicated, we were 11 percent below the market on single coverage and I think 5 percent on married. I think that's what the numbers were, and that's a 2013 report. I would submit to you that you at least ought to hit the average because we do fund a large portion through the state appropriation, a large portion meaning \$38,000...I believe it was 237...it doesn't matter. It's \$38.2 thousand is what we're financing right now with those health premiums. And so what I would encourage you to take a look at and you had indicated, too, that you'd done a Monte-Carlo scenario. You may want to explain what a Monte-Carlo scenario is for the committee. [AGENCY 51]

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DAVID LECHNER: Sure. Again, I'm going to go back to my no surprises. The minute I surprise President Linder or president designate bounds, this will...it'll be my last time of getting to visit with you folks. But what we do in a Monte-Carlo simulation is we go out and we run our claims data over a number of years through some model. And the actuaries actually do this. And they look at the black-swan event or call it what you will, that once in lifetime sort of thing where our claims would just jump so dramatically that we should be buying insurance. And as I told Senator Stinner, we ran that Monte-Carlo analysis last in 2008 and it showed a .03 percent chance of our claims jumping up 20 percent in a year. So that's why we don't buy the stop-loss insurance, quite buying that because there was not cost benefit. [AGENCY 51]

SENATOR STINNER: But we could if we really ran into a situation and it's expensive. [AGENCY 51]

DAVID LECHNER: We could but then we're into that Aon Hewitt thing, Senator Stinner... [AGENCY 51]

SENATOR STINNER: Yes. [AGENCY 51]

DAVID LECHNER: ...where I'm paying \$8 (million) to \$10 million a year for that piece of insurance. And that sort of insurance would take only the amount of claims in excess of \$1 million per claimant per year. So if anybody went above a million, the insurance would pick it up. [AGENCY 51]

SENATOR STINNER: Well, for today's purpose we'll just say this, that we've run a Monte-Carlo scenario, that we did not need to buy catastrophic insurance, that we know we're overfunded, and you'd proposed a mechanism to draw down the funds that includes employee holidays. And I would submit to you I'd like to have a holiday, too, from the appropriations side. What I'm trying to do though is to take a look at this \$38 million that we're providing the fund and saying do we really need to appropriate it in

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that direction. And of course with my fellow senators being very sensitive to overfunded balances, that would make some sense. [AGENCY 51]

DAVID LECHNER: There's a couple of factors for consideration, if I may. [AGENCY 51]

SENATOR STINNER: Okay. [AGENCY 51]

DAVID LECHNER: Number one, one of the reason we're below market and I've got chancellors looking right square in my back right now and for a good reason, our benefits aren't as good as some of the other plans you're going to see. We don't cover some of the things that you and others cover. So, you know, I could do that by a number of mechanisms. I could raise benefits equivalent to what I have in Big 10 and other peer schools. So there's a number of things we could do there and we could shift costs back the other way. When you see copays, deductibles go up, that's a hidden transfer to employees. If I hadn't been so aggressive back early on, yeah, my cost would have been north of market, I would have had less fund balances. But we've been pretty conservative all the way around. So I think there's a number of answers to this other than creating a cliff which really scares me because if I get into that situation where I've got a 16 to a 20 percent increase in the second year of the biennium and you're giving us 3 percent, I go holy buckets. Folks, I've got no money to give to you chancellors because I need it all in the health trust. So I'm willing to work with you on that see what we can do, Senator Smith. [AGENCY 51]

SENATOR STINNER: Okay. Then I have...there's a second area of concern that I was bringing up to the Chancellor and that was the trends in your financial statements, and it needs to be addressed. I believe it needs to be addressed because the trends are trending down which puts a lot more pressure on us to continue to fund at a high level. Have you sat down, have you had planning meetings, and what kind of adjustments can you make? [AGENCY 51]

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DAVID LECHNER: Sure. This is like confession to a fellow CPA. (Laughter) University statements in the public sector are the oddest duck, Senator, you're ever going to run into. For example, up in revenues, where's the money you give us? It's not there. They put it below that operating line. So all of a sudden I've got all the cost into the educational general enterprise. You know, we had a \$29 million increase. That shows up below the line so it's not in the revenue trend. But guess what? All that got expended up there at the top. So there's part of your reason. Second, we've got all these businesslike enterprises. If you think of our enterprise, there's the educational enterprise, there's private money and federal grants and contracts, and then there's supporting enterprises, book stores, unions, parking, athletics, and so on. They're over. What we have in your...I hope this is in your packet somewhere, our state-aided number of employees has barely changed over 15 years. So if you see increase in the salary line, it's likely in the auxiliary and the grants, much as President Linder told you. Second, when we lost money on the health trust, you'll see a lot of that change, Senator, is in that benefits line. Had to bury the debit somewhere. That's where the debit is buried. And when you have salaries that go up \$30 million and you've got maybe a 25-30 percent benefit load like we all have, there's another \$10 million. So that's why you get out of kilter is because some of the revenues, endowment income, if you remember the 35 I threw out for President Linder that comes in from spend off the endowment, that comes in down at the bottom. But if that's a professorship, that comes in...that shows up in salaries and wages, again above the line because of these...the way the statements are structured. So there's...we could have a whole accounting 101 and you and I would have a lot of fun and we can dissect these and I enjoy the...
[AGENCY 51]

SENATOR STINNER: I think we can. Suffice it to say there's some adverse trends here that have to be addressed, I've captured all of those numbers in a bottom line type of approach, taken a look at it, said, yeah, there needs to be some adjustments. Some adjustments might be tuition increases, some adjustments may be more cost control, some adjustments may be all of the above. I just thought maybe you had...somebody

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had looked at this stuff and said, hey, we need to...apparently it hasn't...bells and whistles haven't gone off yet, huh? [AGENCY 51]

DAVID LECHNER: Oh, we look at it all the time. And there's a number of answers and I just try to give you a few at the top. [AGENCY 51]

SENATOR STINNER: I was trying also trying to figure out how much cash do you really have and what is that number. And of course we have restricted funds. And I think it's in...I can't remember the footnote, it might be footnote C. But, anyhow, one of the footnotes breaks out cash equivalents, which is investments. And it appeared that it was about \$600 million in cash that were not restricted, \$489 million or about billion one in cash on the financial statement. Okay. And I understand that you need to keep your credit rating up and all the rest of that stuff. But I went to footnote H, I'm just trying to source for you so you could go back and take a look at it... [AGENCY 51]

DAVID LECHNER: Okay. [AGENCY 51]

SENATOR STINNER: ...the bonds payable were \$757 million and I was just kind of trying to true that up against the cash. But I've also looked at the footnote C had \$567 million of investments that you've turned over to the investment folks to invest short term. And if I took that and subtracted it out, it looks like you have a working capital number of about \$35 million. Does that square or could it be \$100 million but it's a number, is it not? [AGENCY 51]

DAVID LECHNER: I think it's closer to your first versus your last. Let me speak to that from another number that's on your financial statements. Go down to unrestricted fund balances and I don't want to take up too much time with debits and credits by the group here. Again, get into these crazy definitions in our financial statements and I apologize for the accounting lesson for all of you but you'll probably qualify for CPE today. It shows \$722 million of unrestricted net assets. There's a lot of stuff buried in there that

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we would play the devil in spending. For example, the accounting rules throw into their R investment and the hospital joint venture; \$316 million out of that \$722 (million) is the joint venture. What's held in our health insurance trust shows us unrestricted assets, net assets. But there's another huge deduct of over \$100 million. There is the net worth in the clinicians practice that's in there. There are fund balances that they say, okay, if you got into a pinch you could pull some of these debt funds over at the trustee back in. So there's a lot of deducts that get in there and where you get down to the real unallocated, we're probably closer to your real number, your \$35 (million). [AGENCY 51]

SENATOR STINNER: Okay. That's your working capital. Is there...have you looked at the investment portfolio that you have and said, hey, we could extract \$20 million out of this to do these two projects, initiatives that you have or other types of investments that you call investments? Because I think everybody is sensitive to the fact when you look at audited financial statements and you look at unrestricted balances you're saying, hey, now there's got to be \$40-50 million available for these types of endeavors. [AGENCY 51]

DAVID LECHNER: Probably haven't taken it apart like that for a couple of reasons. First of all, I want you to imagine that besides the general fund, federal and private and auxiliaries, you've got various state fund types rolling across, and then you've got maybe a thousand subfunds at the University of Nebraska. That could be everybody from the political science department up to athletics, up to others, and each one of those has separate restrictions on each. So to go with a broad brush and say, okay, we've got this much money, it is out there in pieces and parts all over the place. So that's why we haven't dealt with that that much. We've tried to give people a little leeway to be entrepreneurial and I think that's very important. [AGENCY 51]

SENATOR STINNER: That was pretty evasive, Dave. (Laugh) [AGENCY 51]

DAVID LECHNER: It wasn't... [AGENCY 51]

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SENATOR STINNER: You know as well as I do it all comes together into a single pot. And you, of course, know each one of those where it comes out of and you can start to outline if it's restricted, not restricted, and it should be listed that way here. You know that. [AGENCY 51]

DAVID LECHNER: Okay, well we can talk some more about that. [AGENCY 51]

SENATOR STINNER: (Laugh) That's all. [AGENCY 51]

DAVID LECHNER Thank you. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Senator Bolz. [AGENCY 51]

SENATOR BOLZ: It would be helpful for me to have more of a 100,000-foot view. I think you've articulated pretty clearly that you agree that fund balances should be drawn down. Can you describe for me some of the principles or values or guidelines that you think are important for me to understand as we make these decisions? [AGENCY 51]

DAVID LECHNER: Sure, sure. First of all, we're getting pressures on coverages, Senator, in terms of what we cover and what we don't. Second, I'm getting pressures in terms of trying to keep those from creating...this fiscal cliff is a thing that keeps sticking in my mind and it's very real. I'll give you an example of the fiscal cliff. If we go negative, pull money out of what traditionally goes into my budget, I have to make that up in the second year and I'm skipping a year. If I have 6 percent healthcare growth, which we have averaged over ten years, I have to make that up and then I have to make up the next year, plus if I'm going to have reserves at six months I have to grab half the trend in again. So I'm into a 15 percent increase if I skip a year and I have 6 percent trends. I hope that math makes sense. We're going to grow into these fast enough I really do

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believe that those reserves are taken down dramatically are something we're not going to have many more years down the road regardless of our good management practices. [AGENCY 51]

SENATOR BOLZ: So slow and steady clearly is a principle or a value. But maybe I'm not asking the question...I'm not a CPA. [AGENCY 51]

DAVID LECHNER: I'm not trying to evade you, Senator. I'm not. [AGENCY 51]

SENATOR BOLZ: And perhaps I'm not asking my question clear enough, but you're articulating that the funds should be drawn down and my recollection last time around was that some of that went to the holiday... [AGENCY 51]

DAVID LECHNER: The health holiday, it did. [AGENCY 51]

SENATOR BOLZ: ...and some of that went to institutional and capital projects. And that made sense to me because we had extra, it went to both stakeholders. So in the future when we have extra, what are the principles that we should use? Is balance the most important thing? Is saving for the future the most important thing? Give me really the very hundred-thousand-foot view. [AGENCY 51]

DAVID LECHNER: Okay. Well, health holidays are easy because you then get the view of about ten months of hindsight. You can see where the year is going to end up and if you have \$2 (million) or \$3 million cases out there you can adjust very quickly. Other remedies aren't as quick to implement. We could put in a wellness plan and, you know, those wellness plans don't come for free. There's \$2-3-4 million a year of cost. Haven't done that. Haven't upped the benefits. So it's a complex problem and I think being orderly, rationale, and cautious is the way to go. [AGENCY 51]

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

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DAVID LECHNER: Thank you. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Mr. Lechner, I guess I just have one follow-up question and I guess it just more of kind of a dovetail off Senator Stinner and Senator Bolz. The reality the way I understand generally what we've done the last couple of years is the equivalent of an employee holiday is the equivalent of a one-time draw down from the healthcare reserve in which the university then uses that savings from the employee...employer version, I should say, the employer healthcare contributions. They've come to the Legislature and essentially has appropriated, asked us to appropriate that money to one-time capital or infrastructure or program needs. I think what Senator Stinner was raising essentially is, is the university considering in the next fiscal year or next two fiscal years any potential employee holidays to draw down your healthcare cash fund balance that would necessitate us as a committee and the Legislature as a whole to consider possible appropriations within the next two years to the university system to draw down that money for any one-time program or infrastructure needs. [AGENCY 51]

DAVID LECHNER: Senator Mello, I would think a holiday or so is still in the offing. Last year, for example, and we have yet to get you the final report on our 14 spin, but it went to things like Manter Hall where we train almost every physician or person that goes into medicine. It was at the College of Allied Health for equipment and so on. It fills little bitty holes and we will come back and report on that. But a bit of spend down is probably okay, but you got to...these big lop it off and get down to where we're going to be back to begging or into a defined contribution health program, that's not where I want to go. [AGENCY 51]

SENATOR MELLO: Okay. All right. Thank you, Mr. Lechner. [AGENCY 51]

DAVID LECHNER: Thank you, Mr. Chairman. [AGENCY 51]

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SENATOR MELLO: Any other questions from the committee? Thank you. [AGENCY 51]

DAVID LECHNER: Thanks, members. [AGENCY 51]

SENATOR MELLO: Good afternoon. [AGENCY 51]

RON ROSATI: (Exhibit 5) Good afternoon. My name is Ron Rosati, spelled R-o-s-a-t-i, and I'm dean of the Nebraska College of Technical Agriculture located in Curtis, Nebraska. I'm testifying on the Agency 51 request. I appreciate the opportunity to address you this afternoon. The Nebraska College of Technical Agriculture plays a unique role within the state's education system. With a statewide agricultural mission, NCTA is the only two-year college and the only open admissions institution administered by the University of Nebraska Board of Regents. Today, NCTA is best known for delivering high-quality, low-cost academic programs in agriculture, veterinary technology, and related disciplines. Allow me to highlight a few of NCTA's recent accomplishments. NCTA's enrollment grew to 380 students in the fall of 2014, a 28 percent increase in one year. The size of the freshman class increased 50 percent last year. Current new student applications for fall 2015 project a similar trajectory in growth. The NCTA veterinary technology program was ranked among the top ten in the United States by an external industry group. NCTA has the highest graduation rate of any two-year public college in the state of Nebraska, almost double the national graduation rate for two-year public colleges. NCTA recently established an urban agriculture program in Omaha working in partnership with the Omaha Home for Boys and Nebraska Extension. NCTA is very prudent with appropriated dollars. NCTA's technical laboratory-based curriculum is costly but yet NCTA's expenditure per graduate is 34 percent lower than the state two-year college average. NCTA receives no local tax revenue. More than 70 percent of NCTA's operating budget is its state appropriation. As enrollment grows, the funding allocation per student declines if the appropriation remains static. And this is the first time in approximately 20 years that NCTA has made

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a request to the Appropriations Committee for an increase in its base operating budget. Although NCTA is privileged to be part of the University of Nebraska system, NCTA state funding is a separate line item with a separate state budget. We are requesting additional resources to continue delivering outstanding programs to Nebraska's leading industry. Let me outline our most critical funding priorities. Number one is talented enhancement and faculty competitiveness. It's important to recruit and retain top quality faculty to NCTA. In order to do so, we need to pay them in line with the market. However, the average NCTA faculty salary is 40 percent below that of its most similar peer institution--40 percent below. Strengthen the veterinary technology program. During the American Veterinary Medical Association site visit for program re-accreditation last fall, the review team voiced concern about the low numbers of faculty relative to the numbers of students at NCTA. At the exit interview, external accreditors asked NCTA to limit enrollment until we hire additional faculty. Third priority is strengthen the meat science program. NCTA is growing its meat science program. Nebraska is the number one red meat producing state and the industry has such a shortage of labor that workers are brought into Nebraska from around the world. The NCTA meat science program would produce managers and entrepreneurs to work in this industry. Teaching resources. Funds are requested for additional technology-rich classrooms and laboratories so that our graduates are prepared to take the latest cost-effective technology out into the work force when they are employed by Nebraska's agricultural industries. Facilities and operations. Funds are requested for improved technology to achieve energy savings and fire safety upgrades in our oldest buildings. Farm laboratory equipment. NCTA maintains a 500-acre teaching farm which allows the college to offer the applied, hands-on teaching activities that are its trademark. Funds are requested to update equipment and technology used on this teaching farm. The funds requested today will allow the college to continue its tradition of excellence and training young men and women as the farmers and ranchers of Nebraska's future. Thank you for considering this request. [AGENCY 51]

SENATOR MELLO: Thank you for your testimony, Mr. Rosati. Are there any questions

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from the committee? Senator Kuehn. [AGENCY 51]

SENATOR KUEHN: Thank you, Senator Mello. Dean Rosati, thank you very much for your testimony. I'd like to commend you on the great strides that NCTA has made in the past couple of years with regards to its mission and program. [AGENCY 51]

RON ROSATI: Thank you. [AGENCY 51]

SENATOR KUEHN: With regard to your student enrollment and population, do you have any numbers with regard to what percentage of your students upon completion of their program at NCTA remain engaged in agriculture, agribusiness within the state or where your graduates go to? [AGENCY 51]

RON ROSATI: We do have some data. We survey our students at graduation, three years postgraduation, and five years postgraduation. And approximately 70 percent of them remain in the state employed in agriculture. The most recent five-year data shows approximately 70 percent remaining in the state employed in agriculture. [AGENCY 51]

SENATOR KUEHN: Thank you very much. [AGENCY 51]

SENATOR MELLO: Any other questions of the committee? Senator Stinner. [AGENCY 51]

SENATOR STINNER: Did I hear you right saying that your staff is underpaid relative to the market by 40 percent? [AGENCY 51]

RON ROSATI: That's correct, Senator. [AGENCY 51]

SENATOR STINNER: How do you track new teachers? [AGENCY 51]

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RON ROSATI: We have people that are very dedicated to the model of higher education that we offer at NCTA, the hand-on applied agriculture. Their passionate about that. And we use that desire, that passion to bring them to the college. They do an outstanding job but our salaries are approximately \$20,000 per faculty member below our nearest peer institution. [AGENCY 51]

SENATOR STINNER: Okay. For those from Lincoln and Omaha that's never been to Curtis, it's a long way from just about anywhere. [AGENCY 51]

RON ROSATI: About 35 miles or so south of North Platte and about the same distance north of McCook. [AGENCY 51]

SENATOR STINNER: Yeah. Thank you. [AGENCY 51]

SENATOR MELLO: Thank you, Senator Stinner. Senator Watermeier. [AGENCY 51]

SENATOR WATERMEIER: Yeah, I guess a question about the 20 years as far as the waiting period and asking for additional request, just share a little bit of the history of that. That's incredible to me and that's why you're behind 40 percent obviously. [AGENCY 51]

RON ROSATI: We've gone back and looked through the data over the past 20 years and there has been increases when state employees receive a raise. There's funding that's sent to the institution for those statewide employee raises. And there have been increases for utilities. When utilities increase, there's additional money sent to the institution for utilities. But beyond those two there has been no request for increase in operating funds that has gone to the Appropriation Committee and there's been no increase in base operating to the institution. [AGENCY 51]

SENATOR WATERMEIER: When you say no request or no just granted request? I

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mean, you requested it or it's never been requested actually for increase in the salaries?
[AGENCY 51]

RON ROSATI: There's been no request that's been made to the Appropriations
Committee. [AGENCY 51]

SENATOR WATERMEIER: Okay. All right. [AGENCY 51]

SENATOR MELLO: Senator Watermeier. [AGENCY 51]

SENATOR WATERMEIER: Just to follow up a little bit in here. I couldn't quite find it
back, but you had mentioned something about being encouraged to reduce enrollments
into a particular program. Because that's probably not common either I assume, is it?
[AGENCY 51]

RON ROSATI: No. And that was from the American Veterinary Medical Association.
Our vet tech program is one of the first accredited in the United States. It's been
accredited for 40 years. We bring external reviewers to the campus about every five
years to take a look at our program. It's ranked as one of the top ten in the country, but
this year during the exit interview they indicated that our student numbers had exceeded
the capacity of the number of faculty that they had and they ask that we not add
students to the vet tech program until we add faculty. [AGENCY 51]

SENATOR WATERMEIER: And I see you have one extra request in there for \$100,000
for that one. [AGENCY 51]

RON ROSATI: Yes, there's a request in this appropriation to add a faculty member for
the veterinary technology program and also to work with laboratory animal welfare
curriculum. [AGENCY 51]

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SENATOR WATERMEIER: Okay. I always have to remind myself a little bit and maybe you could share a little bit the difference, you know, that's such a unique environment to have a university underneath them, relative university, but yet your asking for a separate request on your own. So different than a community college obviously levy taxes. So where do you say you're against your peer institutions? Who is that? What is a peer group? [AGENCY 51]

RON ROSATI: The most similar peer institution is the Agricultural Technical Institute with the Ohio State University. [AGENCY 51]

SENATOR WATERMEIER: Ohio State. [AGENCY 51]

RON ROSATI: At Ohio State. So it's an institution that's almost exactly like NCTA. It's associated with its land grant but it's a remote two-year campus, 100 percent agriculture. That's all they do on kind of a two-year campus. So our faculty salaries are just over about \$46,000 on average and their faculty salaries are in the mid to upper 60s at NCTA. That's comparing nine-month faculty to nine-month faculty at these two institutions. [AGENCY 51]

SENATOR STINNER: Oh, they are both nine months contract then? [AGENCY 51]

RON ROSATI: Yes. [AGENCY 51]

SENATOR STINNER: Okay. [AGENCY 51]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you. [AGENCY 51]

RON ROSATI: Thank you. [AGENCY 51]

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SENATOR MELLO: We'll open it up now to anyone else wishing to testify on Agency 51, the University of Nebraska system? [AGENCY 51]

LAVON HEIDEMANN: Senator Mello, fellow members of the Appropriations Committee, my name is Lavon Heidemann, L-a-v-o-n, Heidemann, H-e-i-d-e-m-a-n-n, and I come before you today as a registered lobbyist on behalf of Nebraska Farm Bureau Federation. Nebraska Farm Bureau Federation is here today in support of funding for IANR and NCTA, also known as the Nebraska College of Technical Agriculture. I'm also here on behalf of Nebraska Cattlemen today, and I do believe that they put a letter of support in. I'm going to get away from my written statement here that I have and give you a little bit of background what I know about Curtis, and hopefully it reflects what Farm Bureau and Nebraska Cattlemen also believe. I came onto Appropriations in 2005 and we got to the university's budget and then you get to the budget of Curtis. And I will say by and large the Appropriations Committee at that time did not understand what went on out at Curtis. I became Chair in 2007 and I decided to try to figure that out a little bit more. And on a summer day in 2007, we loaded up a van and we took out some members of the university. I think Ron Withem was with us. I believe Kathy Tenopir went out with us. And I fully became a lot more aware of what Curtis was about. And when we went, when we took off, I wasn't 100 percent for sure what the end game was I will tell you that. There were people on the committee I believe at that time questioned the existence of Curtis. I came back and I started to explain the people that were out there, the students that went there, where then ended up, what they did. And more than anything else what really impressed me at that time, and it was brought up before, was the passion. And that's what drives that school. At that time, it was Weldon Sleight but it has moved on with Dr. Rosati. And I knew at that time that we had to find some funding for them. They had some capital construction projects that they needed to get done if this college was going to move forward. I convinced the Appropriations Committee at that time in partnership with some...the local community and a local private funder that was going to put some dorms up. And there was a partnership, there was goals to be met. I will tell you that we set the goals very high. And we were in amazement they were

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able to actually reach those goals in funding from the community and the private donor. But that just shows once again the passion that there are people out there that they have for Curtis in this college. I believe we have as a state made a significant investment in Curtis and they come before you today for the first time in 20 years that we've heard because they need a little bit more to make it work. My wife teaches school and I understand that you can have the best buildings in the world and we've provided them for this college. But they need a little bit more with a few more instructors and what they're able to pay. And I will say that they operate a lot more on passion than they do sometimes what they make out there, but they need a little bit of help. We have to...in my mind this is a wise investment for the state to give them a little bit more so they can attract the people that they need so that we can continue to move this college forward. I know you have a lot of priorities before you and I know when you look at this request, percentagewise it stands out there. And I am not going to deny that and I would pick up on that, too, as an Appropriations member. But dollarwise for what we're going to get out of this I believe that this is a wise investment and I encourage the Appropriations Committee when you get down to your final budget recommendations that you consider this very seriously. With that, I will take any questions that you might have. [AGENCY 51]

SENATOR MELLO: Thank you for your testimony, Mr. Heidemann. Are there any questions from the committee? Seeing none, thank you. [AGENCY 51]

LAVON HEIDEMANN: Thank you. [AGENCY 51]

SENATOR MELLO: (Exhibits 6, __, __, and __) Is there anyone else here wishing to testify on Agency 51, the University of Nebraska? Seeing none, the committee did receive letters of support of the university's budget request specifically on the Nebraska College of Technical Agriculture, a letter of support from the Nebraska Cattlemen, letter of support from Tom Hansen, representing Hansen 77 Ranch, letter of support from Klaus Fieger (phonetic), the NCTA advisory committee, and a letter of support from Tim

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Anderson, the copresident of the South Platte United Chambers of Commerce. The Committee also received state senate resolutions in support of the university's overall budget request from the University of Nebraska-Lincoln, University of Nebraska-Kearney, and University of Nebraska Medical Center student senates. Seeing no one else wishing to testify, that will close today's public hearing on Agency 51 and take us to our first of ten bills this afternoon and evening. Starting first with LB154, Speaker Hadley. [AGENCY 51]