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Appropriations Committee
February 21, 2017

[LB150 LB327 LB328 LB329 LB330 LB331 LB332]

The Committee on Appropriations met at 1:30 p.m. on Tuesday, February 21, 2017, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB327, LB328, LB329, LB330, LB331, LB332, and LB150. Senators present: John Stinner, Chairperson; Kate Bolz, Vice Chairperson; Rob Clements; Robert Hilkemann; John Kuehn; Mike McDonnell; Dan Watermeier; and Anna Wishart. Senators absent: Tony Vargas.

SENATOR STINNER: Welcome to the Appropriations Committee hearing. My name is John Stinner. I am from Gering, Nebraska, and representing the 48th District. I also serve as the Chair of the committee. Like to start off by having members do self-introduction, starting with Senator Clements.

SENATOR CLEMENTS: Hello. I'm Rob Clements, represent District 2, Cass County and Sarpy County, a little bit of Otoe. I'm from Elmwood, Nebraska. And that's it.

SENATOR STINNER: Okay. Senator McDonnell will be joining us later.

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

SENATOR STINNER: I'm John Stinner, 48th District, Scotts Bluff County.

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

SENATOR WISHART: Senator Anna Wishart. I represent District 27 in west Lincoln.

SENATOR WATERMEIER: Dan Watermeier, District 1 in southeast Nebraska.

SENATOR STINNER: Okay. Also assisting the committee today is Jennifer Svehla, who's our clerk; Brenda is our page. It looks like she has a few assistants that I haven't met yet. Also to my right is our Fiscal Analyst, Mike Calvert. Additional information: At each entrance you'll find green testifier sheets. If you are planning on testifying today, please fill out a green sign-in sheet and hand it to the committee clerk when you come up to testify. If you will not be testifying at the microphone but you want to go on the record as having a position on the bill being heard today, there are white sign-in sheets at each entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearings. To better facilitate today's proceedings, I ask that you abide by the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

following procedures. Please silence or turn off your cell phones. Move to the reserve chairs when you are ready to testify. Order of testimony: introducer, proponents, opponents, neutral, and closing. When we hear the testimony regarding agencies, we will first hear from the representative of that agency. We will then hear testimony from anybody who wishes to speak on the agency's budget request. Spell your name, first name, first and last name for the record before you testify. Be concise. It may be my request that you limit your testimony to five minutes. Written materials may be distributed to the committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and staff when you come up to testify. We need 12 copies. If you have written testimony but do not have 12 copies, please raise your hand now so the page can make copies for you. With that, we will begin today's hearings with Budget Director Gerry Ogamuler (phonetically). Is that how you say it? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Close. Oligmueller. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Well, close enough. One of these days I'll get it right. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: (Exhibits 1 and 2) Chairman Stinner and members of the Appropriations Committee, for the record, my name is Gerry Oligmueller. My name is spelled G-e-r-r-y O-l-i-g-m-u-e-l-l-e-r. I am the State Budget Administrator and Administrator of the Department of Administrative Services, Budget Division. I'm appearing here today on behalf of Governor Ricketts in support of LB327 through LB332, which, along with LB333 through LB336, constitute the Governor's budget recommendations for the 2017-2019 biennium. The funding for the operations of state government, state aid to individuals and other governments, and capital construction are contained in these legislative bills. The contents of this legislation have been summarized and presented to you in a printed publication entitled, "Executive Budget in Brief, 2017-2019 Biennium," and dated January 12, 2017. I've provided a copy of that printed publication along with my prepared remarks to the committee clerk for your record. In addition, we have posted a more comprehensive publication entitled, "Executive Budget, 2017-2019 Biennium," dated January 12, 2017, along with a complete copy of the individual state agency, board, and commissions' biennial budget requests on the State Budget Division Web site at Budget.Nebraska.gov. Finally, I have attached five technical amendments to my written testimony, three for LB327 and two for LB330, for your consideration as you prepare your amendments to the introduced legislative bills. The Governor's recommendations for adjustments to the current fiscal year 2016-17 appropriations were presented to you on January 5 in LB22, LB23, and LB24, and were previously considered by the Appropriations Committee during public hearings on January 17, 18, and 19. As you are aware, this committee forwarded recommendations to the Legislature presented in LB22 for the current fiscal year and that legislation was passed by the Legislature on February 15 (sic--13) and approved by the Governor

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

on February 15. LB22, as enacted, reduces current fiscal year appropriations and reappropriations by \$137 million. LB22 is an important first step in addressing our current budget challenge presented by lagging tax receipts and the downward revision on General Fund tax receipt forecasts. Your prompt action regarding LB22 is very much appreciated. The Governor's recommendations for 2017-2019 biennial appropriations are contained in LB327 through LB332. In addition, LB333 through LB336 include specific changes in state law necessary to implement certain budget recommendations. Those bills have been referenced to the Health and Human Services Committee for consideration. The Governor's budget recommendations for the 2017-2019 biennium provide for a two-year average increase in General Fund appropriations of 1.7 percent. LB331 and LB332 contain specific provisions related to various funds and transfers necessary to administer and account for budget recommendations made by the Governor for the upcoming biennium. LB331 includes a General Fund transfer in each fiscal year of the biennium, to increase the Property Tax Credit Fund from \$204 million to \$224 million, as provided for in LB958 during the 2016 Legislative Session. LB332 contains the Governor's recommendations related to the state Cash Reserve Fund, including a proposed transfer of \$75.2 million to the Nebraska Capital Construction Fund to finance the Reception and Treatment Center at the Department of Corrections. The Governor's recommendations provide for a \$500 million unobligated balance in the state Cash Reserve Fund. The Governor also made recommendations regarding fund transfers in LB23 and LB24, which were subject to public hearing in January. It is my understanding that those recommendations have been deferred for further consideration by the committee as you prepare your recommendations for the 2017-2019 biennium. Lagging General Fund tax receipts and tax receipt forecast revisions present the state with a significant challenge as we end the current budget biennium and adopt a budget for the upcoming 2017-19 budget biennium. The Governor's recommendations in LB22 through LB24 and LB328 through LB336 address possible General Fund cash flow considerations for the current biennium, regain structural balance, and provide for a 3 percent minimum reserve in the General Fund. This General Fund reserve is in addition to the Cash Reserve Fund balance. I know that the many state agency budget requests and the provisions of LB327 through LB332 have been the subject of your committee working sessions these past several weeks. In addition to this information, your preliminary recommendations will be the subject of your committee hearings for the next four weeks. Today I will not repeat information already provided to you and not review in detail the Governor's recommendations. Agency directors will be prepared to discuss specific recommendations related to their agencies during your upcoming budget hearings. In addition, the staff of the State Budget Division and I will be available throughout your committee process to assist as may be necessary in your further work on developing your recommendations for the 2017-2019 biennium. On behalf of Governor Ricketts, I do want to share how much we appreciate the hard work of the Appropriations Committee and that we look forward to working with you over the next 38 legislative days as you finalize your recommendations to the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

Legislature. Thank you. Do you have any questions you'd like to ask today regarding LB327 through LB332? [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Questions? Senator Wishart. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Well, thank you, Gerry,... [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Sure. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: ...for coming today and for your dedication to our state. I have a few questions about how the Governor and you and his office arrived at the rates for Medicaid and for TEEOSA funding. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: The rates for Medicaid and the... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Yeah. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...level of TEEOSA funding? [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: And the level of TEEOSA funding. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: What was the process for coming to that? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Yeah. So we engaged the various departments within state government under the direct supervision of the Governor, starting as early as June of last year, working kind of on a concurrent basis with regards to what recommendations we'd advance for the current year... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

GERRY OLIGMUELLER: ...to address the downturn in tax receipts and what ultimately was a revision in forecast made in late October. And the agencies brought forward, as a part of their budget submissions on September 15, a number of modifications. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: So I think there were over...probably over 300 individual modifications in aid programs and operational programs submitted by the agencies, including the Department of Health and Human Services, which had included I think a budget modification related to Medicaid rates of just over 2 percent, if I recall correctly. Don't have the exact number or percent. And through that conversation about their entire budget and the modifications that were considered, many of which were not actually recommended, a decision was arrived at for a 3 percent reduction in the amount of funds available... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...to the Medicaid Division for purposes of adjusting rates in the upcoming biennium. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: And I believe the Medicaid director will be speaking to that in his testimony, but that does not mean each individual rate would be adjusted by that percent. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: So...and as it relates to TEEOSA, the funding level for school aid was arrived at, accounting for decisions made during the 2016 Session that in effect financed changes made in the TEEOSA school aid funding formula on a go-forward basis. So we're trying to account for some policy obligations made as it relates to a change in funding for TEEOSA during the 2016 Session. So that level of funding recommended for 2018 accounted for those changes. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

GERRY OLIGMUELLER: And simply also expressed a priority on the part of the Governor to finance school aid in addition to some high-priority issues with the Department of Corrections as a matter of priority in his recommendations for the upcoming biennium. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Yeah. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Further questions? [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: I have a question. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Senator Bolz. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Your testimony references LB333 through LB336 that have been referenced to the Health and Human Services Committee with an idea that that would help to achieve budget recommendations. Can you tell me...can you tell me why only Health and Human Services Committee bills were brought forward? Were there any other bills in any other committees that were part of the Governor's initiative to try to create cost savings for other budget recommendations? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Well, there were a number of modifications recommended throughout the state budget as part of the Governor's budget package. Those happen to be four that required a substantive law change to execute, so that explains the reason for the introduction of legislation. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: And there were no other programmatic changes that would require substantive law that could have created cost savings and contributed to our budget shortfall in any other agency or any other committee? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: There may well have been, if I were to go back and look at them. What I could advise you is that as we went through that consideration was made without regard to whether or not it required legislation. Those budgets were reviewed in the context of, what is the modification being presented? Once a decision was made, they were vetted to determine which required a substantive law change, and those four did. [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

SENATOR BOLZ: Uh-huh. What about TEEOSA? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: The historical practice that we've undertaken with regard, from an executive branch point of view, with regards to recommendations for TEEOSA is to identify the level of funding available and recognize the standing committee's role in determining exactly the changes to the TEEOSA funding formula to advance to the body. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Uh-huh. It just seems to me that there were other policy recommendations in the deficit budget request that had that same kind of overlap, the Riparian Vegetation Aid Program, for example; the Personal Property Tax Exemption that was Senator Gloor's bill a couple of years ago where we created some cost savings. I just don't understand why only Health and Human Services bills were brought, only statutory changes related to Health and Human Services were brought for budget consideration. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: There would have been modifications, for example, with regards to Vegetarian Aid...Vegetation Aid--sorry, Senator, (laughter)--that you can set the level of funding or reduce the level of funding or increase the level of funding without regard to the need for a substantive law change. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Uh-huh. Uh-huh. I think some of what is communicated to me, by having those substantive law changes brought as the Governor's initiative to the Health and Human Services Committee, is some recognition that the Appropriations Committee isn't the only committee that can contribute to balancing our budget. And so I appreciate that recommendation and that perspective. But I think that there are other committees that should be bringing resources to bear and that everybody needs to look hard at public policy and, you know, I think there were maybe some missed opportunities. But I think I appreciate the recognition that other committees contribute and I think that that's a policy that we need to think through as a committee and as a body. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: I don't disagree with that. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: I have a quick question on the Cash Fund Reserve status. There is a report here in front of me. There was a transfer out of the General Fund of \$17,500,000. Normally, we add to the fund by virtue of forecasting errors. This is kind of a change in policy or procedures that I have seen. Do you want to elaborate on what was the thinking behind that and

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

was it all about trying to maintain a \$500 million Cash Reserve, rainy day fund? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Senator Stinner, the answer to that is, yes, that was the motivation was to establish that balance at \$500 million as had been previously the position of the Governor when crafting the current biennial budget for state government. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Okay. Thank you. Oh, I'm sorry. Senator Wishart. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: On the Cash Reserve, how do you...how did you come up with \$500 million? When I served on the Lincoln Airport Authority, we went through a pretty significant Cash Reserve policy to figure out really what we needed and what was the most efficient amount of money we would need to have in there for any emergency situations. How do we come to that, the \$500 million? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Well, it's...there's certainly no substantive law or state law requirement for the level of... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...that fund balance. So that's a determination arrived at as you construct the biennial budget, which certainly was an issue for consideration as we prepared Governor's recommendations, as it will be for the Appropriations Committee as you prepare your recommendations to the floor of the Legislature. But given the fact that the state of Nebraska builds a General Fund budget that includes a 3 percent minimum General Fund reserve, the \$500 million balance in the Cash Reserve Fund was a level that was satisfactory from the viewpoint of the Governor, in terms of how and what we might have to respond to in terms of any exigencies that present... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...present themselves to us throughout the year with the state budget. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Senator Bolz. [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

SENATOR BOLZ: I also have a question related to the Cash Reserve. Let me start here. Director Oligmueller, this isn't your first rodeo, right? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Right. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: (Laugh) So over time you've seen economic trends and you've seen our revenues wax and wane, right? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Uh-huh. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: And I know that you can't predict the future, but it's possible, given our cash receipts over the past couple of months, that we might have lower revenues looking into the future. Would you agree with that, that that's something that we might have to consider in the next couple of months? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: I'll know better in about a week (laughter) exactly what the answer to that question is. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: (Laugh) Well, what we hear from the Fiscal Office is that sometimes these go in four-year cycles and I think the pattern over the last couple of months has been that we've seen lower receipts. Could you agree to that? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Right. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Right. So I think this issue of the Cash Reserve is one that deserves to be taken seriously and we need to think through what the right level for the Cash Reserve is. And so given that sense of conservativeness about making sure that we have the Cash Reserve if we faced an economic downturn and as we face additional budget pressures, I'm curious why the Governor recommended the full \$72 million for the Reception and Treatment Center in the Department of Correctional Services rather than going with the agency request, which in this biennial budget would have taken only just about half. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: It is simply to recognize the full obligation of the capital project as opposed to, you know, not recognize that future cost as a part of financing it. [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

SENATOR BOLZ: Uh-huh. How is that different than any other capital project, you know, just for example like our HVAC project? You know, we're sort in for a dime and in for a dollar. We have to finish the project. So how is that project different than the other projects that we invest in over time? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: I would say that our recommendations and the Legislature's enactments with regards to capital projects, particularly the financing of them through the use of Cash Reserve Fund, has been to recognize that full obligation up-front. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Uh-huh. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: The one exception I'm aware of is the HVAC financing for the State Capitol Building, whose full cost was not recognized by the Legislature when it was appropriated... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Uh-huh. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...or financed at least. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR BOLZ: Right. Okay. Well, I can appreciate that but isn't...you know, there's precedent in terms of this committee sort of moving things over time while having a long-term commitment and vision that multiple strategies can work. Okay. Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Anybody else? Senator Wishart. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: So kind of going back to what Senator Bolz was saying about other committees having some responsibility to also work to help us deal with this deficit, have you talked at all about what the Revenue Committee's role is in addressing this deficit? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: We certainly monitor the legislation that's been introduced and is being considered by all the various standing committees, as will certainly be the case for the Legislative Fiscal Office, because on sine die obviously we have to reach the same bottom line in terms of what we're... [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

SENATOR WISHART: Yeah. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...able to finance, so. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Yeah. Because I, being new here, I am learning still about some of the processes and how we dealt with deficits in the past, and what I've heard is that the Revenue Committee would kind of put out the equivalent of the sort of shell bill that we put out so that we could address rates and everything could be on the table and everybody was kind of negotiating. Is that happening this year? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Well, the Governor recommends, and the Governor recommended balancing the budget without tax increases. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Okay? And the Legislature certainly, under our constitution, carries the power to appropriate and to set tax policy. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Yeah. Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: So the Governor's recommendation is to balance without a tax increase. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: I'd have...I've got to get back to this Cash Reserve at \$500 million. And I'm trying to figure out as we cycle out of this economic situation that we're in, we'll be below, probably below, the \$500 million. First of all, I'd like to know the Governor's opinion about us coming in below it, maybe \$50 million, maybe \$100 million below it, but using the Cash Reserve to kind of cycle our way out. And then what type of priority should we place on replenishing the Cash Reserve before we do anything else? [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Well, it's certainly...it certainly...I would recognize it's your prerogative to draw that Cash Reserve, on that Cash Reserve Fund in the manner you describe, and... [LB327 LB328 LB329 LB330 LB331 LB332]

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

SENATOR STINNER: It's the Governor's prerogative to veto, line-item veto to get back to that level, which is... [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: I think the important consideration is gaining structural balance by fiscal year '19 in the biennium... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: ...so that your ongoing receipts are in excess of your total outlays for '19, whether that be General Fund spending or transfers out of the General Fund. So if you take a close look at the Governor's budget recommendations, structural balance is gained, you know, by fiscal '19. You naturally will probably find yourself in a situation where you're replenishing the Cash Reserve Fund in part, if for no other reason, than this cycle that Senator Bolz refers to usually has us chasing receipt forecasts downward and then again upwards. And so you'll likely find yourself in a situation along the way where your receipts are in excess of what you've used to build the budget, which would result in increased transfers to the Cash Reserve Fund. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Thank you. Any other questions? If not, thank you for your testimony. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

GERRY OLIGMUELLER: Thank you very much and we'll be available for the next several weeks. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: (Exhibits 5 and 6) Any other proponents? If not, I have a letter from the Nebraska Cooperative Council in support of LB331. Are there any further proponents, first of all? How about opponents? Okay. I do have a letter from...excuse me, the Nebraska Cooperative was in opposition to LB331. The support was Nebraska Water Resources Association. So I correct myself. Any opposition? Anybody in the neutral? [LB327 LB328 LB329 LB330 LB331 LB332]

MARK BROHMAN: Chairman Stinner, members of the Appropriations Committee, my name is Mark Brohman. I'm the executive director of the Nebraska Environmental Trust. That's M-a-r-k B-r-o-h-m-a-n, and I'm here today to testify in a neutral position on LB331. My board does have a few concerns with LB331 and we wanted to express them to the committee. The trust supports water funding. In fact, we've contributed over \$100 million in water projects over our history. We

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

are concerned this process of giving one entity advantages in the grant process will lead to additional groups seeking preferred treatment. In Section 5 and 6 of LB331 appropriates \$3.3 million for the next two years in fiscal year '17 and '18, and '18-19 from the General Fund. But in Section 19 it directs the Natural Resources Department to apply for three years of funding from the trust. There's no guarantee that the third year of General Funds will be provided. LB331 could be amended to take...to have a two-year grant application instead of a three-year grant application with the Environmental Trust. The trust will be awarding \$16.68 million this year and that \$3.3 million represents 19.8 percent of all trust funds. So one-fifth of our funds will be going to one grant over the next three years if this continues, if this is enacted. Many of our grant recipients feel it's unfair that they are competing with a state agency that's given tremendous advantages over them. Section 19 takes the responsibility of the trust's citizens board and puts it in one agency's control. The trust was established with a board of 14 members, 5 of those being agency heads, including the Department of Natural Resources director, and then 9 citizens. So it's a citizens board because there's more citizens on the board than state personnel. It was set up by the Legislature in that way so that grant...lottery proceeds would go to the best applications each year. On an average, the trust gets a two-to-one match on all of their grants, but in the case this...in the case of this setup, the match is 40 percent to the Water Resources Cash Fund. That's less than one-to-one. Maybe the match contribution could be upped to a fifty-fifty, at least if this bill continues to go through. The trust is given \$3.3 million a year...has given \$3.3 million a year for the past six years, and that was a negotiated settlement with a number of conservation groups, the trust, and a number of senators via LB229 back in 2011. I know that was before most of you were here. Some folks were staffers at that time; other folks have been here and understand that arrangement. But that arrangement was to expire in 2017 and this, of course, LB331, is going to extend it three additional years. So we just wanted to express those concerns to the board and make ourselves available for any questions that you might have concerning this application that would be put in front of the Environmental Trust through LB331. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Thank you. Questions? Seeing none, thank you very much. [LB327 LB328 LB329 LB330 LB331 LB332]

MARK BROHMAN: Thank you for the opportunity. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: (Exhibit 3) Good afternoon, Chairman Stinner and members of the Appropriations Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We have significant concerns about closing this budget shortfall through budget cuts alone. If the Governor's proposal or a comparable level of cuts is adopted, we would be nearing the historic low of General Fund appropriations as a share of the economy going back to at least 1990, which we hit in FY '11 during the Great Recession. Working with the Revenue

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Appropriations Committee
February 21, 2017

Committee, millions of dollars could be freed up by freezing or repealing various tax expenditures, including several incentive programs, various tax credits, and earmarks. For example, there are millions of dollars in sales tax proceeds that are automatically transferred from the General Fund to cash funds, and don't appear to be subject to the same sort of review as General Fund appropriations. Prior to 2006, the first 5 cents of the motor vehicle sales tax was the only sales tax that was earmarked for roads. In 2006, the additional half-cent of the motor vehicle sales tax was directed from the General Fund to roads. In 2007, leased motor vehicles were directed from the General Fund and earmarked for roads, in large part because of the high price of gasoline was resulting in less motor fuels tax being generated for the Highway Trust Fund. In 2011, the Build Nebraska Act was passed, directing a quarter-cent of the sales tax from the General Fund to roads so that in FY '16 a total of \$309 million in sales tax were earmarked for roads. In addition, LB610 was passed in 2015, the 6-cent incremental gas...incremental increase in the gas tax, and in 2016 LB960 created the infrastructure bank which received an infusion of \$50 million from the Cash Reserve. Another example is Game and Parks. They started receiving a sales tax earmark in October of 2014 which amounted to \$4.2 million in FY '16. Then LB745 was passed in 2016, allowing Game and Parks to raise their user fees, which is projected to raise \$5 million in FY '18. According to the Department of Administrative Services, from 2011 to 2016 the Nebraska Department of Roads expenditures had more than twice the growth of other economy builders, like K-12 education and higher education, and even more than Corrections, despite significant needs. I want to stop and say that we believe that spending on transportation should absolutely be a high priority for the state and that good roads are critical to a strong economy, and Game and Parks is important as well. We simply have concerns that when we create earmarks or other tax expenditures, it becomes difficult to evaluate these earmarks against other competing needs and priorities. As we've indicated before, we have concerns that the shortfall could be structural in nature. The GAO recently issued a report that found budget shortfalls in the states are likely to persist upwards of 40 years in order to close a growing fiscal gap, and that state and local governments will either need to reduce spending or raise taxes by 3.3 percent annually. Revenue changes made over the last decade cost about \$755 million in FY '16 alone, according to a list that was put together by the Legislative Fiscal Office. This does not include Nebraska Advantage, which has cost as much as \$108 million in 2013 and is projected to cost this much in the future. And while we received federal assistance the last time we had a significant budget shortfall, this time it is more likely that we could have additional reductions in federal funding that could negatively impact the state budget either through funding cuts to programs or through federal tax changes that reduce Nebraska's income tax revenue. We can look back at past sessions and find several examples of cuts that had long-term, unintended consequences, perhaps most notably the Corrections crisis that was most likely exacerbated by cuts to Corrections made during the Great Recession that the Legislature continues to work to fix today. Cutting state aid to schools will result in cuts to education and/or increased property taxes to fund K-12 education. Higher education funding will also be taken to an historic low as a share of the economy. If Nebraska truly wants to grow our state, these cuts

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Transcriber's Office

Appropriations Committee
February 21, 2017

could significantly impact our ability to have a highly educated work force, which regularly ranks at or near the top priority for businesses. There are several bills before the Revenue Committee that would work to pull back or freeze revenue bills passed since 2006, as well as several that would broaden the sales tax base which could free up revenue for a year or two or longer. In light of our current budget shortfall and the strong likelihood that it will continue to grow, we would ask that you work closely with the Revenue Committee to minimize the impact of cuts and the unintended consequences that will follow. And with that, thank you for your time. I'd be happy to answer questions. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Questions? Senator Kuehn. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR KUEHN: Thank you, Mr. Chairman. So based on your testimony, is there anything in the budget you support? You're here neutral, which is kind of "neutral-ish"... [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Right. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR KUEHN: ...if we want to be quite blunt about it. So you have a lot of criticism about cuts. You have quite a bit about tax increases and earmarks. Is there anything in the budget that OpenSky does support or think that we're doing right in these proposals? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: It could have been worse. (Laugh) How about that? [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR KUEHN: Again, that's "supportive-ish." [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Well, yeah. So I want to preface it by saying that we have not seen the primary budget from the Appropriations Committee, so really we're just responding to the Governor's budget. I do understand that K-12 was reduced so far in the preliminary budget or discussions about reducing K-12, not as a cut but a reduction in the increased growth. As I mentioned in my testimony, you know, I think there are folks who may have...again, it could have been worse. I mean it could have been an outright cut. We are concerned about the impact on property taxes. We are concerned about cuts to schools for those who would not be able to make up that lost revenue. Certainly there are schools who would be able to increase their levy limits, but I will tell you, in conversations that we've had with K-12 education and when we look at spending--

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Transcriber's Office

Appropriations Committee
February 21, 2017

and I'd be happy to send a chart out as a follow-up to this conversation--but when we look at spending for K-12, for higher ed, we really are falling back to levels that we saw during the Great Recession, which is really concerning to us. So we're here in a neutral capacity because we understand that you have a very difficult job ahead of you. We have a large budget shortfall, and so we appreciate how difficult this is. I mean this is...I'm not suggesting that this is easy, an easy task that you have in front of us...in front of you, which is why we are here in a neutral capacity. But we do think that we could, by looking to the Revenue Committee and not necessarily raising income taxes or raising sales taxes, there are several bills that would freeze things that even happened in the past, give us an opportunity to look to see what kind of return we are getting on those particular bills. A lot of them I think we're not getting much of a return. I think having these sort of earmarks makes it very difficult, as I mentioned. So a lot of what we're doing here today is providing education, some things to think about because we recognize that what you have is a very difficult task in front of you. And so we don't want to come in and say, no, this is absolutely horrible, because we realize it's difficult. But we're here to try to be helpful and to flag for you some options that maybe would help soften the blow a little bit. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: I have a couple questions. The GAO recently issued a report that found "budget shortfalls in states are likely to persist upwards of 40 years." Do you have a copy of that? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: I can send it to you. I don't...actually, I do have it in my bag here. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Okay. I'd like to see that report... [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yeah. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: ...and get a copy of it. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yeah. And I can tell you... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Obviously, that catches my attention. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Right. Right. So...and as I said in my testimony, they indicated that governments will have to look at raising revenue or cutting spending by 3.3 percent per year, and a lot of what

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Transcriber's Office

Appropriations Committee
February 21, 2017

they're looking at are increased pension costs, increased healthcare costs as our population continues to age. And so that was a lot of where they're getting this persistent fiscal gap, as they call it, between revenues and expected spending. But I would be happy to...I can either leave a hard copy, I have it in my bag, or I can...I'd be happy to e-mail it. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Are there bills in the Revenue Committee that you would like to see, and what are those? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yes. There are several bills. I wrote down a few and I'm not sure if there are...there are some bills that in and of themselves, for example, Senator Watermeier has a bill that would collect Internet sales tax, which I think is absolutely something had a lot of support. Very...I don't even know if there was any opposition to that bill. That could certainly be used as to help adjust the budget shortfall. There are several bills that would freeze, for example, new markets job growth, could freeze Main Street Revitalization Act, those both are \$10 (million) to \$15 million a year. You could freeze the indexing of the income tax which, again, I think that's about \$15 (million) to \$20 million a year. There's a special capital gains exclusion that you could freeze that would raise about \$20 million a year. There are, you know, some of these cash fund transfers that I talked about. There are several bills that would expand the sales tax base. I think four different bills have sales tax base expansion components. And so I think that there are several bills out there that you could either freeze those temporarily or look at repealing that could free up some dollars in the short run. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Expansion of sales tax, you mentioned that. Is that in your mind an increase in taxes? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: So in terms of the sales tax base, so ideally what you would do is you would use that to lower the sales tax rate: a broad base and low rate. And so it is, in terms of looking at tax policy, you want a broad base. There are...there's no reason that we tax a night at the movies but not tax a day at the spa. I mean we have all of these inconsistencies in our tax code with things that we tax. If you look at motor vehicles, for example, we tax painting, I think, but not repair. If you look at...if you look at lawn care, there are components that we tax; other components that we don't tax. I mean so even within a particular industry there are things that we're taxing and things that we aren't taxing. For the most part, these bills all are looking at consumer goods, which is good. We don't want to tax business inputs. These bills largely stay away from taxing business inputs which would pyramid and make the cost of a good more expensive. So we want to tax one time, at the time of sale, and I think all four of these bills have components that would broaden the sales tax base in a way that is...that does not tax business inputs and would meet the criteria for neutrality, tax neutrality again in terms of trying to tax goods and services equally. So

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Transcriber's Office

Appropriations Committee
February 21, 2017

I think it's good tax policy. Ideally, you would pair that with a reduction in the sales tax rate or an expansion of the earned income tax credit to offset the regressivity, something like that. But I think there are a lot of arguments to be made for broadening the sales tax base. The Tax Modernization Committee, when they looked at the issue in 2013, that was one of the components they thought that the Legislature should go back and look at our sales tax base and whether it was broad enough. And if you look, we tax I think 76 services in Nebraska. South Dakota taxes something like 134. Iowa taxes 96 I think. So when we compare Nebraska to our neighbors, we are...well, excuse me. When we compare Nebraska to Iowa and South Dakota, we're taxing fewer services. We do tax more services than Kansas and Wyoming. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: My last quick question is the tax profile of our state counts as far as growth, future growth. The tax profile is sales tax, it's income tax, it's property tax. What, in your idea, is the appropriate balance of those three type of taxes? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: So I think it's appropriate to have that balance. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Equally? A third, a third, a third? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: I think we should be closer to a third, a third, a third than we are right now. Right now we're very heavily relying on property taxes. Our lowest leg of the stool is income taxes. And so I do think it's important to have all three because they do respond differently in different economic environments, but ideally we would advocate for taxing more income tax and less property tax... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: ...and with that, a broadening of the sales tax base. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Senator Hilkemann. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Ms. Fry, you mentioned in the...in your...you did not mention the rainy day fund in your testimony. [LB327 LB328 LB329 LB330 LB331 LB332]

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Transcriber's Office

Appropriations Committee
February 21, 2017

RENEE FRY: Yes. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: And I think the Governor's number is that we should stay at about \$500 million by the end, we get done with the budget process. What are your thoughts on the rainy day fund and where we should be at that, at the end of this process? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yes. So in the past we've come in advocating for Nebraska to keep their rainy day fund at 16 to 16.7 percent, the Fiscal Office has put out some information looking at the four-year cycle having a rainy day fund of about 16 percent; the Government Finance Officers Association recommends 16.7 percent, which is that two-month period. What's different now is that it's raining, right? And so I think this is a difficult question. I think, depending on what happens Monday with the forecast on Monday and what happens in April with the forecast then, I think would help make that answer a little bit more clear, I think. So where we are is that there isn't a set number. There isn't a set dollar amount. During good times we'd like to see it at that 16 to 16.7 percent. But now that it's raining, our recommendation would be that that is used in case we have a really bad February forecast, a really bad April forecast, and whether it looks like a negative forecast is going to continue. I mean it's there for a rainy day. I think the Legislature should be applauded for doing a good job of building that up. It's much stronger than in other states. And so I do think it is a difficult question to say how much should be taken right now and I think the February forecast and the April forecast will make that a little bit more clear. I would be hesitant to use all of it because there is a forecasted or a projected shortfall through the next biennium as well. We do have concerns that the shortfall could be more structural in nature whereas there could be, again, even more of a shortfall coming, and that's where we would get concerned about using too much of it right now, leaving us vulnerable. But I think, absolutely, it is there for a rainy day and I would be reluctant to fixate on a particular number not knowing what's going to come in February...or next Monday in April. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: But you would think \$500 million would probably, if we keep it there, that should be sufficient. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: I would be hesitant to make such a statement. I really think it depends on what we're looking at for a forecast for the rest of this biennium and next. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Also surprised in your testimony that you did not mention the Property Tax Relief Fund as a possible source for revenue. Any thoughts on that? [LB327 LB328 LB329 LB330 LB331 LB332]

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Transcriber's Office

Appropriations Committee
February 21, 2017

RENEE FRY: I think everything should be on the table for discussion. We have...our challenge with the property...we have a love/hate relationship (laugh) maybe with the Property Tax Credit Program. We have been supportive of efforts to reduce property taxes. We would rather see a more comprehensive...more comprehensive look at how we're funding K-12 schools and really spend some time, do a study and look at our needs and our resources and how we're funding schools. We saw the Property Tax Credit Program as maybe what we would hope would be sort of a short-term solution to a longer term structural issue, and it seems to have become maybe a little bit of a band-aid, which is where our dislike of the program comes in. But I think there needs to be a conversation. I think we need to be looking big picture. I do think that...I do have concerns about taking much out of the Property Tax Credit Program right now, given what's happening in the ag community, in particular. I will tell you one of the things that we don't like so much about the Property Tax Credit Program as well is that it's not targeted. And we have seen some recent research that as much as 44 percent of that credit could be going to nonresidents. And so again, I think any effort that we can make to make sure that that credit is staying and being sent specifically to Nebraska residents would go a long way, so. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: So when you say 44 percent is going to nonresidents, you're saying these are people who own land outside the state of Nebraska... [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Right. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: ...or live outside the state of Nebraska and own land. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yes. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Just for the record,... [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yeah. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: ...if we follow the Governor's recommendation, we'll actually have a surplus of over \$300 million out in 2020-21. So the budget recommendations that he puts in here, if we can follow it relatively close, the mixture might be a little different but it will result in

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Transcriber's Office

Appropriations Committee
February 21, 2017

an excess out in 2020-21. So any other questions? Senator Wishart. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Going back to the GAO report, I'm imagining that this is talking about a number of states that are dealing with budget shortfalls. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Uh-huh. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Are there states in this country that are not dealing with budget shortfalls that you've been looking at, and what are they doing to make sure they don't go through this kind of roller coaster that we've been experiencing? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yeah. So you know, first and foremost, I mean the way to protect from a roller coaster is a rainy day fund and to have a good healthy Cash Reserve. And again I would reiterate that I think that the Nebraska Legislature has done a good job protecting that rainy day fund. It was tapped a little bit more last session than we would have liked, given that we were coming into this year with a budget shortfall that ended up growing considerably more than I think anyone had really anticipated. But maintaining a healthy Cash Reserve Fund really helps from the ups and downs considerably. There are not all states...you see states with ag, with energy, with an aging population seem to be the states that are having the most significant budget shortfalls, as well as states that have been cutting revenues. And that's something that we've been doing as well, maybe not quite as big and bold as Kansas did, but we certainly have been reducing revenue as well. And other states with shortfalls fall into those categories. There are some states, not many but a few states that are looking at raising taxes. Kansas is undoing... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Uh-huh. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: ...significant amounts of the tax cuts that they passed, and there is wide bipartisan support for those efforts. So I think that there are sort of a myriad number of things that states are doing to adjust shortfalls, but it's pretty individualized depending on what...depending on the economy in the state and the Cash Reserve, that sort of thing. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: So what about the states that aren't dealing with shortfalls, and can you expand on...I mean are there states that stick out to you that are just kind of booming in terms of

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Transcriber's Office

Appropriations Committee
February 21, 2017

their economy and not dealing with this level of shortfall? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Yeah, I fear I will be fairly selective so I would be hesitant to say too much... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: ...other than, you know, we sort of look at Minnesota who seems to have an extremely strong economy right now. But I think that there are about 30 states that have shortfalls right now. And I'd be happy to get the committee more information on that. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: It's been sort of...just like it has been in Nebraska. I think it's been a little bit of a moving target across the state. So I'll add one more thing. The other factor in here that, not sure how this is playing in, but also anticipated federal changes, federal tax changes, and what that could be doing in terms of taxpayer behavior. That was flagged in our Rockefeller Report that I would be happy to send to the committee as well. So that taxpayer behavior could be...might be contributing to some of the timing of when revenue is coming in and when it's not. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Go ahead, Senator Hilkemann. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Right, on that 44 percent that you mentioned that that money is going out of state, is that basically on agriculture property or does that involve other properties? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: It would involve other as well. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Could you get me a copy of that report? Is that available? [LB327 LB328 LB329 LB330 LB331 LB332]

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Transcriber's Office

Appropriations Committee
February 21, 2017

RENEE FRY: Yeah. It's actually...so it's an estimate from the Institute on Taxation and Economic Policy. They have a distributional analysis. So when they look at how the...how it runs through, some of it would be business that's owned by, you know, nonresident shareholders. Some of that would funnel back. Some would be on other types of property. If you think about Ted Turner, for example, as maybe the most infamous example. I know that the Mormon Church, for example, is a large landowner in Nebraska as well. And so I'd be happy to get more information to you, but there isn't a formal report. It's an estimate that they've provided. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: So when you mentioned the...you just mentioned the Mormon Church a large...there would be a tax exempt entirely or just on that Property Tax Relief Fund? [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: They would be tax exempt on the portion of their property that is being used for religious purposes, for exempt purposes. So my guess is not all of their property probably should not be tax exempt, but I don't... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Okay. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: ...but I don't know the particulars. I've just heard that as an example. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR HILKEMANN: Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Okay. Thank you very much. [LB327 LB328 LB329 LB330 LB331 LB332]

RENEE FRY: Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

ANNE HINDERY: (Exhibit 4) Good afternoon. Thank you for the opportunity to speak. My name is Anne Hindery, A-n-n-e H-i-n-d-e-r-y. I am the CEO of the Nonprofit Association of the Midlands. We're a statewide membership organization that represents nonprofit businesses of every size and mission across the state of Nebraska, and we advocate on behalf of those nonprofits and the entire sector. Government has increasingly partnered with the nonprofit sector to deliver a vast range of services. Investing in the work of nonprofits is an investment in innovative solutions and services that benefits everyone. However, LB327 contributes to creating a cycle of chronic underfunding of community-based programs that ends up being penny wise and pound foolish. NAM's work on behalf of our members is to help address concerns with the

Transcript Prepared By the Clerk of the Legislature
Transcriber's Office

Appropriations Committee
February 21, 2017

complexity of government's grants and contracts, such as not paying for full cost of services, delays in payments by government agencies, and cuts in funding that has occurred to date and will continue under LB327. We recently reached out to our members and tried to ascertain the impact of recent cuts in the current year, as well as future year funding. Our members told us the following. The child welfare programs will be cut and programs will likely close as such programs were not fully funded to begin with. Prevention programs for adoptive parents throughout the state, a sound investment that saves money in the long term, would close. Additionally, cuts announced last week by the Crime Commission will reduce previously awarded funds by 45 percent retroactively and impact the current fiscal year that ends June 30, 2017. Nonprofits will be hard pressed to find other sources of funding this late in the year and community-based services will likely suffer. Even nonprofits that do not receive state funding may be adversely impacted. For example, an organization that deals with homeless youth may see an increase in clients if youth in the foster care system do not receive the support that they need as services transition from private service providers to state employees. These children may become homeless and need services from other community organizations or from public safety, increasing the number of people that we all serve. While we know that tough choices must be made in challenging times, it is important that this committee be aware of the impact its decisions will have on Nebraskans and the nonprofit organizations that the state has contracted with to provide services on its behalf. Nonprofits partner with government agencies to provide services in a nimble and cost-effective manner. We partner with the private sector to provide services to employees and their families. It is important that this committee, as well as the Revenue Committee, understand the impact of these cuts that will hurt Nebraskans. Thank you for your time and I'm happy to answer any questions that you might have. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Thank you. Questions? Questions? [LB327 LB328 LB329 LB330 LB331 LB332]

ANNE HINDERY: Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Thank you. [LB327 LB328 LB329 LB330 LB331 LB332]

NATHAN LEACH: Mr. Chairman, members of the Appropriations Committee, good afternoon. My name is Nathan Leach, that's spelled N-a-t-h-a-n L-e-a-c-h, and I am speaking on a neutral capacity on LB150, LB327 through LB332. I reside in District 27 here in Lincoln and grew up in Kearney, Nebraska, where I graduated in 2015, and I would like to submit some statements relevant to how the committee deliberates on this budget and how the budget is handled if and when it leaves the committee and goes to the floor of the Legislature. I wanted to read a speech by U.S. Senator George Norris when he spoke before the Unicameral on the first day that it met

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Transcriber's Office

Appropriations Committee
February 21, 2017

in 1937. He said to the newly elected members, "You are members of the first Legislature of Nebraska to hold your positions without any partisan obligation to any machine, to any boss, or to any alleged political leader. Your constituents do not expect perfection. They know that it is human to err, but they do expect and have the right to expect absolute honesty, ultimate courage, and a reasonable degree of efficiency and wisdom. The people of Nebraska will not condemn you even if they do not agree with your official actions. We realize that honest disagreements on things which are not fundamental is an evidence of courage and independence. We expect an economical and efficient administration and, above all, an honest administration, free from any partisan bias, political prejudice, or improper motives." Mr. Chairman, I hope that these words can be reflected upon and as the Legislature moves forward it can adopt its nonpartisan rules and continue to hold this long-held tradition as an important component of our Unicameral system. Thank you. [LB150 LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Thank you. Questions? Seeing none, thank you very much. [LB150 LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR WISHART: Thanks, Nathan. [LB150 LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR STINNER: Any additional testifiers? Would you like to close? Waives. Okay. Well, that concludes...I think that concludes our business for today, so thank you very much for attending and... [LB327 LB328 LB329 LB330 LB331 LB332]

SENATOR McDONNELL: Oh wait.

JENNIFER SVEHLA: You have (inaudible).

SENATOR McDONNELL: You have your shell bill.

SENATOR KUEHN: You have LB150, the shell bill. [LB150]

SENATOR STINNER: I have my shell bill. My goodness, how can I forget that? [LB150]

SENATOR BOLZ: Good afternoon, Chairman Stinner. [LB150]

SENATOR STINNER: Good afternoon, Senator Bolz and fellow members of Appropriations Committee. My name, for the record, is John, J-o-h-n S-t-i-n-n-e-r, Stinner, and I represent the 48th District. LB150 is the shell bill typically introduced by the Appropriations Committee Chair

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Transcriber's Office

Appropriations Committee
February 21, 2017

in odd-numbered years as a contingency in the event that Cash Reserve transfers become a part of the Appropriations Committee budget recommendations. Since the Governor may not always introduce a Cash Reserve Fund transfer bill, it has become routine to have a shell bill in the committee as a tool should it be necessary to enable the overall budget recommendations of the committee. An amount to be transferred by this bill is indicated as "XXX million dollars," which can be amended to specify the amounts to be transferred. Thank you for your time and I'd be happy to take any questions. [LB150]

SENATOR BOLZ: Any questions for the Chairman? Thank you, Mr. Chairman. [LB150]

SENATOR STINNER: Thank you. [LB150]

SENATOR BOLZ: Do we have any testifiers on the shell bill? Seeing none, that closes the hearing on Chairman Stinner's bill. [LB150]

SENATOR STINNER: Want to thank everybody for attending and we are adjourned.