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Appropriations Committee
March 16, 2017

[AGENCY 27]

SENATOR STINNER: Next we will start the hearing on Agency 27, Department of Roads. Good afternoon. [AGENCY 27]

KYLE SCHNEWEIS: (Exhibit 1) Good afternoon, Chairman Stinner. Good afternoon. Chairman Stinner, members of the Committee, I'm Kyle Schneweis, S-c-h-n-e-w-e-i-s, and I'm the Director of the Nebraska Department of Roads. I very much appreciate the opportunity to come before you today in support of the Governor's budget recommendation for the biennium. I want to thank the committee and the Legislature for your enduring support for transportation, including last year's Transportation Innovation Act, LB960. This allowed the state to make significant progress toward constructing the capital improvement projects necessary to support increased economic development and to grow our state. NDOR is committed to reducing costs, bureaucracy, and overhead so we can commit as much of our budget as possible to meeting our transportation needs namely and most importantly, the 10,000 miles of highway system that we preserve and the continued support of capital improvements that help support economic growth in our state. As you may recall from December's needs hearing, we identified \$11.6 billion in projected needs over the next 20 years. And in 2016 as we traveled the state to talk about capital improvement projects during the Build Nebraska Act and Transportation Innovation Act project prioritization process, we identified \$8 billion in needs when we talked to Nebraskans. And we were able to select \$300 million of those projects for construction. We're committed to making strategic investments in our system and will continue to do so with the recent legislation like the Build Nebraska Act, the Transportation Innovation Act, which directly benefits cities and counties with programs like the County Bridge Match Program and the Economic Opportunity Program. I get asked about our funding a lot, so I will spend a little bit of time on it. We get revenues from generally five sources. Federal funds make up 37 percent of our funding--it's shown as a cash fund appropriation on your side, although on our side it's a reimbursement program--sales tax on motor vehicles make up 14 percent; Build Nebraska Act, 7 percent; more vehicle registrations, 5 percent; and then the state more fuel tax is under 28 percent. All of these funds are deposited in the Highway Trust Fund. And that fund is separate from the General Fund and it is separated on purpose. It is designed to make sure the transportation funds are spent on transportation projects. And the use of this model, this Highway Trust Fund model, is a best practice across the country.

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You see it in most states and it's critical for...not only to ensure the funds are spent where they were intended but for that stability, that predictability of resources, so we can be efficient and effective as we plan both in the short and long term. And we're managing our Highway Trust Fund more tightly than ever. I'd like to turn your attention to, in your packet, the first graphic I believe. It looks like this. It has a blue line on it. And you can see where our historical balance has been. In the past we've been up as high as \$150 million-plus in terms of where our cash balance was in the Highway Trust Fund. And we are now managing that much lower. You can see how the line has been coming down over time. And you can see when we look at the Governor's projection out into the future how we're hovering slightly above zero most of the time. Our goal is to keep that around 3...to 3 percent, 4 percent. And our goal is to maintain that low balance so we're getting the money spent. We're spending it on the roads. And it's a bit of a balancing act as you can imagine. We have \$650 million in construction contracts today that are for projects that are being built today. We do not have \$650 million in our account. We project out when those payment will be due and we project out when those revenues are going to come in and that allows us that sort of balancing act to manage the cash the way that we are. And I want to ensure you that we are...although we are not General Fund-funded, we are committed to playing our part to safeguard the financial stability of the state. And we're participating in the hiring freeze. We've reduced our FTE count by eight and anticipate that number will grow as we strategically realign our organization. We have instituted travel restrictions. We've canceled 98 out-of-state trips saving \$110,000. A few other quick examples, we've delayed purchases of computer upgrades saving \$400,000. We've moved our orientation on-line for new employees rather than traveling from all over the state to Lincoln saving \$80,000 each year. Excess right of way, we are aggressively trying to sell excess land where we have it. We just sold a piece of land in McCook for \$126,000. All of these examples are examples of how we're integrating the Governor's vision to be more efficient and effective and allow the department to devote as many resources as possible towards the betterment of the transportation system. It's not just about saving money on our initiatives. We're also trying to get strategic in how we think about our work. We are reducing the time it takes to deliver projects. We went from 35 months to 31 months last year in the time that it took to deliver our preservation projects. LB271 is, we call NEPA Assumption, is estimated to substantially expedite projects within our state. And we're partnering with sister agencies and unlike we've ever done before at the Department of Roads. We're partnering with the Department of Economic Development on a freight plan and we're a

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willing partner with OCIO as we work through the IT consolidation effort and in fact have saved \$143,000 on server room migration already. My colleague from the Department of Aeronautics mentioned LB339. I, too, would like to stress the importance of it. We believe we're going to find some efficiencies as we emerge and those efficiencies will result in more money for roads and more money for runways. And I, too, would like to thank Senator Friesen for introducing the bill and the committee, the Transportation Committee, for advancing in prioritizing it. A little bit about our approach to the budget: very much influenced by the Governor's priorities of being effective and efficient and customer focused. And we instituted a new process under my leadership. I personally sat down with all 25 division heads and district engineers and went through their budgets with them line by line. And then we asked that they start with 97 percent of their 2016 actual expenditures and then make the business case for additional expenditures. And I'd like to say it wasn't zero-based but it was based on the principles of zero-based: Budget for what you want...don't budget what you want; budget for what you need and not what you got last year, not what you got last year plus 2 percent, not what you want, not what you think you might need, but what you actually need. And that's where we started and I think as a result we were able to find savings. A few examples, we delayed the purchase of some lab equipment saving \$350,000, we rightsized our budget for material saving \$2 million, we reduced some contractual services saving \$2.5 million, and then in highway photography--we take a lot of aerial photographs for our project as you can imagine. The camera needed to be replaced. We decided that rather than spending a \$1.2 million on a brand new camera, we're going to use consultants strategically and as needed and we're going to save money as a result. We understand that the cost of transportation improvements is very high. A preservation project might cost \$10 million or more. So if we can cobble these savings together to do one more project to make the roads safer to further preserve our state, that's what we're going to do. In terms of our budget request, it accounts for an increase in the excise fuel tax as authorized by the Legislature in LB610 back in 2015. The recommendation reflects an average motor fuel tax of 28.1 cents per gallon for fiscal year '18 and 29.6 cents per gallon for '19. The recommendation includes a Highway Cash Fund appropriation set at \$437.5 million for '18 and \$446.5 million for '19. These will ensure our construction projects are delivered as planned and as promised. The preliminary committee recommendations set the Highway Cash Fund appropriation for the biennium \$47 million below the Governor's recommendation, a reduction of \$19 million in '18 and \$28 million in '19. This will have a dramatic and immediate effect on our programming and our projects that

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are already under development. The preliminary committee recommendation would mean we'd have to start canceling projects immediately and not at a one-to-one ratio. Saving \$19 million fiscal year '18 would require us to cut between 15 and 25 preservation projects worth \$95 million in construction. And this is because of the long payout time line. So let's say that you have a \$10 million project and you decide to cut it to save \$10 million. Well the payout for that, as you can imagine, is over a year or two years. And you don't...when you cut \$10 million, you don't realize \$10 million right away. You realize it over time. So when you define the time in which you're trying to save money, you have to do more than \$10 million. And in addition, many of our projects are federally funded which means that it's 20 percent state funds, 80 percent federal. So now to save \$10 million, you cut a \$10 million project you're actually only saving \$2 million in state funds. And again, those state funds are spread out over many years. And so if you're trying to save it in a short time frame you have to cut, as I've said, up to \$95 million in construction. The recommendation would also directly impact the Build Nebraska Act and the Transportation Innovation Act projects that have been promised to communities. We would likely have to look at postponing projects like the South Beltway here in Lincoln, Heartland Expressway, the U.S. 275 Expressway, all of these projects would have to possibly be delayed. Put simply, this appropriation level undoes the work of one of the Legislature's signature accomplishments last year, the Transportation Innovation Act. The second page of your handout shows a...the same cash flow chart but with a committee recommendation line showing the impact. And you can see how we would have to start adjusting the program to be able to handle it. Okay, I want to move on to the specific issue within the request. The committee recommended a reduction of \$9.7 million dollars on capital facilities. A brief context on our buildings, we have 128 yards with 555 buildings across the state. Many of the buildings are 50-70 years old and are functionally inadequate and inefficient and we are doing our best to get practical as we try to modernize these buildings. We've saved 30 percent in the last five years. We've gone from precast concrete yards...buildings in our yards to preengineered metal facilities saving, as I said, 30 percent in costs. Our approach is a little different this year. In the first year, like previous years, we've identified specific projects. In the second year we've budgeted for statewide projects. And this is an important distinction because I believe strongly it allows us the flexibility to be able to make the smart choices about...that are reflective of current construction costs and it allows us to seize opportunities as they might arise. The committee recommendation of \$5 million would only allow us to construct our top project in Aurora. The building there is 74 years old. The one in

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Sutton is 70 years old. The proposed investment would consolidate these two into a new facility that will better accommodate our equipment and relieve encroachment and boundary issues. The preliminary committee recommendation prohibits us from delivering much-needed facilities to the Sidney community and our facilities there. That building is 63 years old and has structural problems in the concrete and masonry structure. We have 20 other facilities--South Sioux City, functionally inadequate. It will not house some of today's equipment and is totally landlocked meaning we can't expand our salt storage or use salt brine. These are modern techniques that allow us to more efficiently fight winter storms and we can't do it in that area because we don't have room. Another example is the shop addition in Norfolk. The current mechanic shop is undersized and many of the trucks in the current fleet cannot be taken into the shop for repair. I'd like to move on to everyone's favorite subject, the radio system. The Governor's budget recommendation includes the addition of 1,200 radios for vehicles that aren't currently equipped. And many people may not think of our folks this way, but I assure you that our people are first responders when it comes to emergencies and disasters. And when disaster strikes, the first thing we have to do is get the road open and that's where the roads people come into play. And the Highway Patrol, the police, the sheriffs, the emergency management, they depend on us and the public depends on us when there is an emergency. And if you would allow me to just tell you a couple stories about how important these radios are. We had a crash on I-80 last year. Because we could not communicate in our vehicles, we were not able to get the traffic diverted and the traffic backed up 30 miles in both directions and sat there for eight hours while we cleaned up the crash and eventually got the traffic moving. If we had had radios in our vehicles we would have been able to divert the traffic earlier. But it just piled up too quick and we were not able to react, all because we couldn't talk to each other. The second story is perhaps even more personal to me. We had a winter storm where an emergency responder was trying to make a rescue and the storm was such that they needed to have the road cleared. One of our drivers was out trying to plow the road so we can make the rescue attempt. The weather was so bad that they called off the rescue attempt. But we couldn't tell our guy in the truck because he didn't have a radio. And so he kept going. He flipped his truck--\$41,000 in damage to the truck and, of course, risked his life doing so, all because we couldn't tell him that the rescue attempt had been called off. So these things...and I know they seem expensive. It is a large investment. But these are not your grandfather's CB radios. They are programmable computers that are meant to allow us to communicate within FEMA's incident command system structure. And they provide prompt,

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reliable, interoperable communication that are used by state, local, and federal agencies. I believe the committee has been briefed in the third handout, I believe, in your packet addresses the issue of other agencies' cost based on the rates. The Governor's staff has share this with the Fiscal Office. It shows that an additional \$565,000 is necessary from the committee's recommendation in fiscal year '18 to ensure the rates established by the OCIO in the Governor's budget. Simply put, fully funding the Governor's recommendation for NDOR will ensure savings for General- and cash-funded agencies. In closing, I'm appreciative of the support the Legislature has given NDOR and thankful for the commitment to infrastructure improvements across the state. You've shown a steady hand in laying out the policies and providing the resources to meet our transportation needs. And this is why we're so committed to decreasing overhead and aggressively searching for ways to reduce costs. And again, I want to stress my support for the Governor's budget recommendation and stress that the preliminary committee recommendation jeopardizes our ability to deliver projects on schedule. Thank you for your attention and I would happily take your questions. [AGENCY 27]

SENATOR STINNER: Any questions? Senator Bolz. [AGENCY 27]

SENATOR BOLZ: Good afternoon, Director. Just a couple of quick points, one is I guess just for the sake of the dialogue and the conversation among the committee members. I appreciate your references to being cash funded, but the origins of those cash funds, as you referenced, are the Build Nebraska Act which diverts a quarter cent of the sales tax and sales taxes on motor vehicles. So I just think there's a little bit of conversation to be had about the fact that even though it's cash funded, the origins of those things are still within the sales tax realm, right? [AGENCY 27]

KYLE SCHNEWEIS: Sure, yeah. And as I alluded, the reason that we have the Highway Trust Fund is because the idea being that for us to be able to plan and be efficient with our funding and to keep the promises that we make, we have to have that reliable source. That's why it's in a Highway Trust Fund. And so it also ensures that the projects...the funding, regardless of source, that was intended for transportation is spent on transportation. And so that's where we're coming from. And you know, the Build Nebraska Act has been around for six years I believe and we're making tremendous progress. We have communities that are contributing local match for the

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projects that are coming. Design work is underway. Preliminary engineering is underway. Permits are being had. And so to prolong the projects, it breaks a promise that we've been making to the communities that frankly have been with these projects for a long time.

[AGENCY 27]

SENATOR BOLZ: Fair enough. I just think it's also fair to talk about how the origins are taxpayer dollars just like other agencies that are spending out taxpayer dollars, dollars that come from taxation. My only other question or comment is I have some historical data here that shows that the expenditures from Department of Roads have increased over time which marries up with what I recall from my four years on the committee, that we've increased over time because you've been more ambitious over time and as well have taken on some of those historic needs that weren't necessarily taken into consideration in previous years. And so I don't necessarily need a comment on that other than we have increased our commitment to roads over time and so given the current fiscal situation, maybe a slowing in that growth is an appropriate conversation.

[AGENCY 27]

KYLE SCHNEWEIS: Sure. Well, I think infrastructure takes a steady commitment. You can't stop and go. It takes that steady commitment. The projects take a long time to develop. And so it's wonderful to work in a state where that commitment has been demonstrated. And when I look back on the previous legislative session and what I would call a landmark piece of legislation and accomplishment we should all be proud of in the Innovation Act to just months later start talking about going back on that commitment, I think is quite a change of heart, so.

[AGENCY 27]

SENATOR BOLZ: I just would say there's a difference between a change of heart and a response to an economic circumstance. [AGENCY 27]

SENATOR STINNER: Any additional questions? I have a few questions. It's always been my impression that if we put money into brick and mortar like facilities, we're taking it away from maintenance and road development and the like of that. Is...am I looking at that right?

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KYLE SCHNEWEIS: Well, certainly our intention is to spend as much as we possibly can on the roads and whether that's at administrative side, overhead, or with buildings. And we have to make smart decisions about things like capital investments. I think when you look at the size of...the number of facilities we have, the size of our state, and the locations where we are, we did an evaluation. The replacement value through our insurance policies of these buildings is \$160 million. And so that tells me that it takes a little steady investment to keep at it. Now we have to make hard decisions. And you know, the Governor and I sat down and had a long discussion about the importance of these facilities and we both agreed that it was important that we continue to chip away and modernize our system. When we put a new building in, we save money on utilities. We're usually closer to the highway for easier access. We can do things like add salt storage and brine storage that make us more efficient. So I think it's a delicate balancing act. Our goal is...surely is most definitely to spend as much as possible on the roadways themselves with an understanding that you know the buildings take care too. And last week I was in Beatrice visiting the shop down there. It's not even on our list. And the shop maintenance supervisor was showing me around and the building is rotting out and the garage door, one of them doesn't open and the truck doesn't fit in the bay. And it's on and on. So for me, a slow steady investment is wise, especially when it can save us money in the long run. [AGENCY 27]

SENATOR STINNER: This is really helpful for me laying this out in the detail that you provided. I think that one of the things that catches my eye all the time is the cost per square footage. [AGENCY 27]

KYLE SCHNEWEIS: Sure. [AGENCY 27]

SENATOR STINNER: Now you're taking a look at steel buildings. That's lowering the cost of square footage. That's a little better result than the \$200, \$300 a square foot. [AGENCY 27]

KYLE SCHNEWEIS: If I could comment, I do think that that's an area where the committee has criticized the department in the past and I think we've taken that to heart and we're sure trying to make it stretch as far as we can. We're not building the Taj Mahal. We're building something that's going to serve the people the state. [AGENCY 27]

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SENATOR STINNER: Slow and steady would be a good way of looking at this, but with 550 buildings, I really kind of would like to have maybe a little bit longer view, a strategic plan, deferred maintenance, here's what we think is going to happen over a period of time. [AGENCY 27]

KYLE SCHNEWEIS: A business case of sorts that gets into some of the economic costs of it, sure. We do some of that work and it's something we're trying to modernize it and frankly to get an even better understanding of it. We do have a committee that works very hard to prioritize these and weighs a lot of factors including opportunities to consolidate and where maybe communities can be partnered with, those sorts of things. [AGENCY 27]

SENATOR STINNER: And what you're requesting is us to match the Governor's intended plan in the cash fund as far as appropriations so projects can move ahead? [AGENCY 27]

KYLE SCHNEWEIS: Correct. [AGENCY 27]

SENATOR STINNER: Okay. I think I understand what you're asking for. A little bit of...tell me how this new highway money that has been approved at the federal level is going to come in and how many dollars that means and where it goes and what type of projects it's for. [AGENCY 27]

KYLE SCHNEWEIS: Sure. So there's been a lot of discussion by the administration about a trillion dollar infrastructure package. And in the conversations I've had with those in Washington, I think many are optimistic. It's not to the place where we can count on anything at this time I do not believe. There are...it's clear there are other legislative priorities at the federal level that may take us a while to get there. I think there are some things about the proposals that are being tossed around that for us in Nebraska we're trying to communicate the need for. So a lot of the talk about private equity and using that as a resource. When you boil that down and peel layers away, what it really means is toll roads. And so that's not something that we've used in Nebraska. It's not something that if we wanted to use would probably work in most places in Nebraska. So as those discussions are taking place, we're trying to communicate and other states like us are communicating that it needs to be more than that if that's what you're trying to do if you want to benefit states like Nebraska and certainly we hope they do. The other part I would

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say just on the federal funding side is...so I do think there is something coming. I do hope it's coming. But I do not think it's coming in the next few months. I would suspect it might be next year or later. [AGENCY 27]

SENATOR STINNER: Wasn't there an extension of the road bill which meant that we'd... [AGENCY 27]

KYLE SCHNEWEIS: Sure. [AGENCY 27]

SENATOR STINNER: ...get \$71 million to \$75 million, depending on what our requests were? That's in place now, is it not? [AGENCY 27]

KYLE SCHNEWEIS: So the federal FAST Act was put in place 18 months ago or so, don't quote me on that. It's a couple years old. It relies...right now it's on a continuing resolution so it's we're supposed to see an increase this year, not a lot. It's about \$10 million. But until...unless Congress does something in the next month, we will not see that. So again, we're hopeful that something will act and we've actually built that...we're used to Congress sort of waiting until the last minute, so we build in usually that they're going to, which is what we've done here. If they don't, not only will we not see the trillion dollars that's being discussed, we might not even get what we're planning to get this year. So there's a lot of uncertainty at federal level as you might suspect. [AGENCY 27]

SENATOR STINNER: Now the savings that you're delineating here is going back into road construction? [AGENCY 27]

KYLE SCHNEWEIS: Correct, correct. And so every time we find savings, that's where we put it. And you know the system is 10,000 miles of highway. We spend \$350 million to \$400 million on preservation every year. And frankly those costs are always increasing. So if we can do one more project, that's what we're going to do. If we can find enough to do some more capital improvement or accelerate a project sooner, that's what we're trying to do. [AGENCY 27]

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SENATOR STINNER: And I did quite a little bit of cash flow work on the Innovation Act, Transportation Innovation Act. And at one time we were talking about design-build and some other techniques and the savings associated with that. And I think I would using in my projections, and I think I ran it by you as well, that we would be saving somewhere close to \$10 million. Is that still a number that's there? Or is it bigger or smaller? [AGENCY 27]

KYLE SCHNEWEIS: Well, so the savings that we see through design-build are because we're able to deliver the projects sooner. And so if there are savings, generally they're because of the inflationary costs that have been avoided. Sometimes the innovation and the speed at which you're moving can offset some of those costs. Most of my colleagues around the country who have used design-build before caution that really what you need to do is use it when time is the issue and don't make cost savings the point because time is really what you're going to get and that can sometimes translate to costs as well. So we are moving forward the state's first design-build project it's Highway 275. We just signed the contract with the consultant to begin the work and our intention is to turn dirt in 2019 which is far faster than we would be doing if we were using the traditional methods. [AGENCY 27]

SENATOR STINNER: I was going to ask you, compare that to traditional. [AGENCY 27]

KYLE SCHNEWEIS: Yeah, it's probably three years faster. [AGENCY 27]

SENATOR STINNER: Wow. Okay. You had a schedule that said if we get this money to you we would accelerate these expressway projects and stuff. Are you still thinking that you can hit your time line? [AGENCY 27]

KYLE SCHNEWEIS: Well, I believe the statute has some intent language that states that the intent is to try to complete the expressway system by 2033. And that is what our intention still is. We've committed to construction on the (Highway) 275 piece. We're going to move forward with design and planning on the other pieces; 2033, even in my world that's a long ways away. So we'll get the work going. We'll get it planned. And as soon as we have opportunity, we'll move forward. And if that involves federal funds down the road, if that...new opportunities will be ready to move. [AGENCY 27]

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SENATOR STINNER: Appreciate that. Any additional questions? Seeing none, thank you.
[AGENCY 27]

KYLE SCHNEWEIS: Thank you for the opportunity. [AGENCY 27]

SENATOR STINNER: Any additional proponents? Good afternoon. [AGENCY 27]

SCOTT BARTELS: (Exhibit 2) Good afternoon, Chairman Stinner and members of the Appropriation Committee. On behalf of the Nebraska Association of Transportation Providers, I thank you for your service to the citizens of the state of Nebraska serving as state Senators. My name Scott Bartels, S-c-o-t-t B-a-r-t-e-l-s. The Nebraska Association of Transportation Providers is comprised from all across Nebraska stretching from Scottsbluff to Omaha. I currently serve as president of the NATP and I am director of the Saline County Area Transit. We realize the difficult task the Appropriations Committee faces in balancing the budget and weighing priorities throughout the state of Nebraska. NATP appreciates the past consideration the committee has given to transit providers throughout the state. The funding formula for transit authorities is the following: 50 percent from federal funds, 25 percent from state funds, and 25 percent from local jurisdictions. The current state distribution formula allows for rural transit providers to become funded on a priority basis and the balance is distributed to public transit in Omaha and Lincoln. It's our understanding that transit aid is currently recommended flat from the prior biennium to next biennium and we support that recommendation. To give the committee a sense of our funding needs, our ridership is on the rise and continues to increase, having provided over 692,000 rural passenger boardings and more than 6.3 million urban boardings in fiscal 2016. For Saline County Area Transit, three out of seven vehicles are well beyond their useful life. That is in spite of receiving two new vehicles under the ARRA program in 2010 that are still in operation and replacing a 250,000-plus mile vehicle this year. This is not an uncommon problem facing rural transit systems. Because we are so rural, some of our daily routes routinely travel more than 200 miles a day. We consistently travel over 100,000 miles per year. It is challenging to keep vehicles in a state of good repair considering the distances they travel and some of the rural road conditions that they maneuver. As one of 62 rural public transit providers, I and the association appreciate any consideration you may give for flat public transit funding within the Nebraska Department of Roads budget. We thank the Nebraska Department

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of Roads for their support of all our transit programs and the committee for your time. Thank you. [AGENCY 27]

SENATOR STINNER: Thank you. Any questions? Seeing none, thank you. [AGENCY 27]

SCOTT BARTELS: Thank you. [AGENCY 27]

SENATOR STINNER: Any additional proponents? Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, that concludes our testimony for the Department of Roads. (Exhibit 3) We do have a letter of support from the city of Lincoln. And that concludes our testimony on Agency 27. We will now start the hearing on Agency 47, Nebraska Educational Telecommunication Commission. [AGENCY 27]