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Appropriations Committee
February 28, 2017

[AGENCY 83]

TODD HOLCOMB: Good afternoon, Senator Stinner. How are you? [AGENCY 83]

SENATOR STINNER: I think really good. [AGENCY 83]

TODD HOLCOMB: (Exhibit 1) Good, good, good. My name is Todd Holcomb, H-o-l-c-o-m-b. I'm president of Western Nebraska Community College. Work force, work force, work force. Nebraska is facing a work force shortage, and this shortage will only grow as the baby boomers retire over the next decade. The work force shortage is in rural and urban parts of the state. We have work force shortages in nursing, agriculture, information technology, accounting, business, and welding, to name a few. Nebraska's community colleges are working hard to fill this gap and continue the economic growth of the state, but we need your financial investment in our institutions. Local business leaders are continuing to ask community colleges to do more to assist them. In the case of Western Nebraska Community College, WNCC, we have been asked to start new programs in applied agriculture, surgical technology, and medical laboratory technology in the span of just two years. Nebraska's community colleges are working with local K-12 schools on career academies to prepare students for these job opportunities. For example, WNCC has partnered with Scottsbluff Public Schools to create a wall-to-wall career academy where the expectation is for every student to take a college class before they graduate from high school. Students and parents are learning what skills and training are necessary to be successful in their chosen career path. These initiatives take resources to begin and expand to more high schools in our region. Approximately 60 percent of all four-year graduates in the state have taken a community college class, so we know that we are the gateway into careers and higher education in the state of Nebraska. Nebraska's community colleges are an economic engine for the state. Over 90 percent of our graduates stay in the state after completing their education, which is a fabulous return on investment for the state and local taxpayers. Community colleges create property taxpayers. Our graduates have higher property valuations, lower crime rates, improved health outcomes, and less need for social services compared to students with a high school diploma or less. Community colleges serve the neediest students in our communities: students from low to moderate incomes, first generation, and students with developmental needs. It takes more resources to provide a quality education experience for these students, but state financial

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support has not kept up with our needs. This fiscal year, community colleges received a 4 percent reversion. It has also been suggested that community colleges be flat funded for FY '18, which is another year of reduced state support. Unfortunately, technology, human resources, and deferred maintenance costs do not stop--they continue to increase. On top of that, the current funding formula is not working for all community colleges. For example, WNCC received approximately \$12.6 million from state aid in FY '09 and we will receive \$12.4 million this year. After eight years of budgets, we have not gone back to our funding level of FY '09. WNCC budget increases over the last eight fiscal years have been less than 2.4 percent. We are fiscally conservative and efficient. Our tuition and fees are now the highest in the state at \$112.50 a credit hour, compared to Southeast Community College which charges \$94.50 a credit hour, an \$18 difference. WNCC has the highest tax levy in the state at 10.05 cents per hundred, compared to Southeast Community College which has the lowest at 7.5 cents. We need state resources to keep our tuition and levy rates low, and we need changes to the funding formula. It's possible that next year you will see 4 to 6 percent tuition increases on students to help defray the lack of state support for community colleges. Over the past eight fiscal years, Nebraska community colleges have averaged 1.4 percent yearly increases from the state. Proposed flat funding next year from the state will only lower that average. There has never been a more important time for the Legislature to support community colleges in the state than right now. We must meet our work force needs and grow our economy. Community colleges are one of the best returns on your investment as a Legislature. That concludes my comments and I'll take any questions that you might have for me. [AGENCY 83]

SENATOR STINNER: Questions? I have some questions. You've remarked that this formula is not working for you. And I guess when I did my spreadsheet of the community colleges back in 2007 I'm looking at state aid made up about three-quarters of a percent, 2006, excuse me, three-quarters of a percent of your total revenue was made up of state aid. It's now less than 50 percent. [AGENCY 83]

TODD HOLCOMB: That's correct. [AGENCY 83]

SENATOR STINNER: And that shift was basically made up by tuition increases and property taxes. But the property tax only went up from \$6 million to \$9 million, which is much less than

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some of the other of your peer group. So what would be a formula that would, if we end up having to cut \$3 million and \$3 million, where would WNCC be? Would you have a larger decrease in state funding proportionately to the other ones? And what would be your recommendation as it relates to the formula or any changes in the formula? [AGENCY 83]

TODD HOLCOMB: Well, the funding formula is very difficult to take a look at and being able to exactly tell you how much. But based upon enrollment, WNCC, because we have the lowest valuation of any community college, would not be able to make up any shortfall or cut. As you can see, we've not raised our levy rate over the last three years. What we have done is we've taken the valuation increase to cover our shortfall. As you can tell, as I said in my testimony, we are the highest tuition in the state. There's becoming a huge disparity between institutions in the state on credit hour production. So we're also believing that we're starting to top out at that top number as far as tuition and fees and what we're able to charge students. So it would be very difficult for us to go back to our property taxpayers but, you know, it would be feasible to continue to look at valuation. But we believe that valuation is not going to increase. We had one county last year that was negative valuation. We believe that we'll have at least one or two counties this year that will have negative valuation, particularly because of what we're facing in Cheyenne County and the potential loss of Cabela's employees. [AGENCY 83]

SENATOR STINNER: Thank you. Any additional questions? Seeing none, thank you.
[AGENCY 83]

TODD HOLCOMB: Okay. [AGENCY 83]

SENATOR STINNER: Welcome. Good afternoon. [AGENCY 83]

RYAN PURDY: (Exhibits 2 and 3) Thank you. Good afternoon, Chairman Stinner and members of the Appropriations Committee. My name is Ryan Purdy, R-y-a-n P-u-r-d-y, president of Mid-Plains Community College, representing the 18-county service area of west-central Nebraska, just to the east of Western. I want to thank you for your consideration of appropriating funds of \$100,820,308, which is equal to the original '16-17 amount prior to our LB22 4 percent reduction, and sustaining that amount for '17-18, '18-19 in lieu of the current state fiscal climate.

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I've been at Mid-Plains for 15 years, serving the last 5 as president. The previous ten years I served as business officer, so I have been tagged kind of as the representative for the financial aspects of this testimony. I can't give you all the details of all the projects and initiatives each of the community colleges have done over several years, but I can tell you how the colleges have been financed with state aid, property taxes, and tuition. I've also worked very closely with Senator Stinner's office and Mitchell Clark. And I did give you a spreadsheet that totals each of the six community colleges so you can see that as a system. In 2003-2004, which would have been the first year after I started, the community colleges were appropriated about \$65 million. At that time, the funding formula required a 6-cent general operating levy and it was underfunded by about \$3.5 million. As those funding shortfalls reached more than \$10 million the following year, in '04-05, the state Legislature allowed community colleges to levy up to an amount needed to recover state aid shortfalls within the formula. State aid appropriations continued to be relatively flat until '07-08, when community colleges received a significant increase in state aid with the assistance of Senator Raikes and the then current CEOs. From that time until 2013, the time when nearly all the community colleges experienced record FTE enrollment growths, state aid increased an average of only 0.9 percent annually. In fiscal year 2013, the model that exists today was implemented and a 3 to 4 percent increase in state aid was given from '14 through '17. However, obviously, with the 4 percent reduction from LB22, that amount was less than the '16 appropriation. In my estimation, had state aid appropriations increased in relations to the FTE growth during the years of growth, property taxes and state aid would nearly match the amounts that they fund the community colleges and those increases would have been similar to about 5.5 percent over those nine years. In the last five years the average growth in expenditures, that you can see on that spreadsheet, at community colleges has been approximately 3 percent. When 70 to 80 percent of your expenses are in personnel costs, collective bargaining agreements take most of those increases, with software costs, insurance, and utilities taking up the rest. I do want to inform you, if you didn't know, which I'm sure you do, the community colleges do not receive state appropriations for capital projects. Up until fiscal year end 2012, community colleges were allowed a tax levy of up to 1 cent for capital needs. In fiscal year end 2013, the Legislature approved up to 2 cents. The 1 cent did not allow for adequate maintenance of existing buildings, let alone new construction for expansion or the replacement of existing facilities. The 2-cent increase, which has accounted for a significant portion of the property tax increases in the past four years, have also been used against us in the

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body when comparing tax increases to other political subdivisions. But that increase was long overdue and funding is now beginning to address the deferred maintenance lists that have grown for so many years. From 2006 to '16 at Mid-Plains Community College we've collected \$15.6 million in property taxes for capital and ADA projects. In addition to those receipts, we've collected \$4.75 million from tuition and fees for projects, \$11.17 million in private donations for capital projects, and financed \$8.97 (million) with facility and revenue bonds, half of that being student-backed, some of that with our 1-cent capital at that time. So you can see a list of projects. I'm not going to go over them. Some of the other things that Mid-Plains has done in the last five years, we've moved from what I call one-room school houses at our regional extended campuses in Valentine, Broken Bow, Imperial, and Ogallala, to more full-service campuses with technical shop space to provide technical training to those communities--all of those, a \$200,000 investment from our community college, the remainder paid for with private donations. So you might ask how we can absorb that \$354,000 reduction of LB22. We've identified areas within our budget that we will not spend this year, including general operating expenses, travel, equipment. We've placed a hiring freeze on all part-time positions that come open between now and the end of the year, and there have been two of those so far, and if we need to we'll use a little bit of our reserve. If we receive the flat appropriation over the next two years, we consider that a flat appropriation over three years, as '16-17 was also at that amount. With the...with that change or with that flat appropriation, we have to consider it as a budget reduction as nearly \$500,000 will be required to meet our collective bargaining agreements each year, as more than 70 percent of our general operating budgets are personnel. Utilities and insurance costs are likely to rise. Our board approved last week a 5 percent tuition increase, which will generate about \$250,000 additional revenue if enrollment remains stable. The remainder will be accounted for through a combination of reductions in operating and personnel costs, use of cash reserves, or property tax increases. My board recognizes that property tax valuations have gone up considerably and they have reduced the overall tax levy in each of the past seven years as they have also incrementally increased the capital fund levy to 1.65 cents. Senator Stinner had asked Dr. Holcomb about his portion of the reduction and so you can see this is assuming no changes in enrollment, so what we had for '15-16 is the same for '16-17, '17-18, '18-19, and you can see the impacts on each of the six community colleges with today's formula. So with that, I'd conclude my testimony and I would take any questions. [AGENCY 83]

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SENATOR STINNER: Questions? Senator Kuehn. [AGENCY 83]

SENATOR KUEHN: Thank you, Mr. Chairman. I have just one question and you may not have it and it's something that you might be able to provide to the committee. But in addition to your financial information, what has your FTE growth done systemwide for each of those years, from fiscal year 2006 to 2017? [AGENCY 83]

RYAN PURDY: I don't know. I think most of those on head counts are on the previous sheets, if you've seen them, by college. If you haven't, we will get them to Senator Stinner's office and he can get them to you. I know that in fiscal year '08 to 2013, you can see a relatively flat state aid appropriations, 0.9 percent I think I did mention. Those were the years where almost all of us saw record FT enrollments. Our FT back in '06 I think was at the mid-1,500s, and we actually peaked a little bit later. We had a very strong contract with the Union Pacific Railroad that really took effect in '13-14, '14-15, which put us over 1,900 FT. So for us it was about a 30 percent increase in enrollment. We have since seen some changes with that specific one in the last two years and you can see our budget has then been flat since that has changed. [AGENCY 83]

SENATOR KUEHN: Okay. Yeah, if we could that FTE data... [AGENCY 83]

RYAN PURDY: Sure. [AGENCY 83]

SENATOR KUEHN: ...that would be fantastic. Thank you. [AGENCY 83]

SENATOR STINNER: Do you want to make a comment relative to how you feel the state aid formula is working? [AGENCY 83]

RYAN PURDY: You know, Todd and I have had lots of discussions, the president of Western that you just heard. We are similar institutions. I think we have a little bit more geographic area than Western does, but if you look at the FT comparisons between Western and Mid-Plains, they're relatively the same. Our revenue stream right now is nearly the same. They get more state aid; we get more property taxes. I think our valuation is about 40 percent higher than theirs, which is why. Our tax levy then ends up being lower. We are the second lowest levy in the state, behind

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Southeast. I think we're 7.8 cents this current year. And so, you know, I think, and Todd would...I think Todd and probably Northeast and Central would agree, that those four years are going to have the most challenge moving forward as far...in terms of FT growth. You know, Lincoln and Omaha and those areas are seeing a significant population, I shouldn't say significant. They're seeing population increases and have more ability to generate the population increase which then should turn into enrollment increases. So I'm with Todd. If we don't get future enrollment increases, we do have some fixed costs and so eventually it's going to cause us to retract programs and make significant cuts, which will just continue to create a downward spiral with our enrollments. [AGENCY 83]

SENATOR STINNER: Now you're in how many locations? It's looks like four or five.
[AGENCY 83]

RYAN PURDY: We have a main campus and a long history in North Platte. We have an academic campus, a technical campus which was long before my time. I consider them one campus. You'd probably see in the Higher Learning Commission they'd say it's three. We have a full-service campus in McCook, the oldest junior college in the state of Nebraska by about a week, I think, over Western. And then we have our extended campuses and we've had those for 15 years, but in Broken Bow, in Valentine, Imperial, and Ogallala. So we try to be accessible to those areas. We've seen a 30 percent increase in dual credit in the last year, so that's been huge. We've gotten into our 35 high schools and saturated that as much as we could to keep those students home. [AGENCY 83]

SENATOR STINNER: Places like Valentine, how many...what's your student population?
[AGENCY 83]

RYAN PURDY: We'll be 25 to 30 full-time equivalent students, FTEs, and that's the for-credit side of the house. We also probably generate that much in the noncredit side of the house as well. We've seen, when we did Ogallala and Broken Bow, those numbers are approaching 60 full-time equivalent students. When you look at operational costs from what we had with our employee there in our one-room school house was virtually owning the facility, it probably cost us about

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\$70,000, \$75,000 per location more to operate what we can but we're serving more than double the students. [AGENCY 83]

SENATOR STINNER: And refresh my memory. When you guys go for bonds, tell me what the process is. Is it...do you have to go for...to the people to go...to have these bonds or is this just approved at... [AGENCY 83]

RYAN PURDY: Your legislative fiscal analyst and I had this conversation before this hearing. When we work with our bond counsel, it is under his interpretation of the statute and ours. As long as it's funded within our existing capital authority, we do not need a vote of the people to do it. If we would have to go outside of that to make it a general obligation, it would require a vote of the people. [AGENCY 83]

SENATOR STINNER: Okay. So the \$1.8 million or \$2 million, \$3 million project that you had in Valentine,... [AGENCY 83]

RYAN PURDY: Yeah. [AGENCY 83]

SENATOR STINNER: ...what's the operating and maintenance expense associated with that? [AGENCY 83]

RYAN PURDY: We'll probably have one full-time equivalent person up there and then the operating costs of that budget will be about \$140,000 a year is what it will cost us to operate that facility. And like I mentioned, we paid \$200,000 to that construction project. The city of Valentine, before the change in the Legislature, gave \$1 million through their LB840 monies, their sales tax renewal, on a 79 to 21 percent vote, and then we raised the additional through local individuals, companies, and foundations. [AGENCY 83]

SENATOR STINNER: Okay. Thank you. Any additional questions? Seeing none, thank you. [AGENCY 83]

RYAN PURDY: Thank you. [AGENCY 83]

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PAUL ILLICH: (Exhibit 4) Thank you, Senator Stinner... [AGENCY 83]

SENATOR STINNER: Welcome. [AGENCY 83]

PAUL ILLICH: ...and members of the Appropriations Committee. My name is Paul Illich, P-a-u-l I-l-l-i-c-h. I'm the president of Southeast Community College. What I'd like to do is I'm handing out a little packet for you. I'm going to walk through little numbers related to the community colleges here in Nebraska. I'm going to speak specifically about the economic impact. When you get this fact sheet, and I'll just give you a second to get it, and just to kind of remind you, Southeast Community College has a 15-county service area. We serve about 9,500 students, credit students, and about 19,000 noncredit students. So you'll notice on this first fact sheet, one of the points I wanted to make early on is that we have about 70,000 credit students we serve across the six community colleges in Nebraska. That's an unduplicated head count. It's an academic year. We're the largest provider of higher education when it comes to annual numbers and that's because we get a lot of enrollment, not only in the fall but also in the spring. You'll see that one of the major things we do is we serve about 87,000 noncredit students. Now what's really critical about that is many of those noncredit courses are related to contract training. So we serve Kawasaki. A lot of the major, for example, employers throughout the state need specialized contract training that covers shorter periods of time than what you'd see in credit programs. Now to the right you'll see on that fact sheet, this is a really important statistic. Every ten years we produce...the last ten years we produced 65,000 graduates. And you heard earlier what's really critical about that 65,000 graduates, and these are in the trades, everything from construction to agriculture, electromechanical, health sciences. Ninety-two percent of those graduates are staying right in Nebraska. That's absolutely critical to our mission. You'll also see an interesting statistic right to the right of that 92 percent. In addition to providing current technical education, one of the things that we do, it's very critical, is we serve an...we have an academic transfer function and almost 60 percent of all four-year graduates in 2014 in Nebraska received some of their coursework from a community college. And what that does is drives down the cost. It drives down the cost and also drives down the average loan debt. If you flip to the next, the back side of that, you can see for every \$1 a taxpayer puts in to the community college, they're getting \$3.4 back. We generate about \$4 billion annually in tax income. Now on the back side you can also see we're routinely between 4 and 5 percent of the total tax pie. Now if you go

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to the next sheet, this is something that you heard earlier. We have a crisis in Nebraska and that's a lack of qualified workers in skilled areas. So the department, Nebraska department Web site has a list of what they call H3 jobs. Those are high-demand, high-skill, high-wage. You can see everything in yellow on that table in about the middle of the page, everything in yellow is where we produce graduates. So what we know, 65,000 sounds like a lot of graduates but we're absolutely not producing near enough and that does two things: not only lacking skilled workers we're not allowing our manufacturers to expand and other industries to expand appropriately; we're also missing opportunities for generating more tax dollars into the state. So on the back side of that second sheet, you can see a list of a number of manufacturers where we're directly helping them grow. So, for example, Nebraska City...in Nebraska City we have a company called American Meter Company. They manufacture 85 percent of all gas meters in the world. And I can tell you I heard a fantastic presentation from one of my machining professors and he said, you know, Dr. Illich, there's no way they can do that if we're not providing the machinists and manufacturing skilled workers. You can see we've got Becton Dickinson Company. It's one of the largest manufacturers of blood supplies in the country. I went...if you've gone to some of the...if you look at our pivot manufacturers, we have the four largest in the world. They all depend on skilled workers. These are just some examples of what we're doing. So we serve a very, very critical function, and you heard this before, but the way I like to think of it, we're absolutely an economic engine for the state. We generate taxpayers. That's really one of our critical functions. And with that, I think I'll stop and take any questions that you might have of me. [AGENCY 83]

SENATOR STINNER: Any questions? [AGENCY 83]

SENATOR WISHART: Actually, I do have one. [AGENCY 83]

SENATOR STINNER: Senator Wishart. [AGENCY 83]

SENATOR WISHART: When you talked about the return on investment, for every \$1 you spend we get approximately \$3 back into the economy, local economy, how did you arrive at those numbers? [AGENCY 83]

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PAUL ILLICH: You know, we do an economic impact study on a regular basis, and that was from a 2013 study and it was done by a group called Emsi. They do similar studies all throughout the country for community colleges and other educational entities and what they look at is they look at a number of things. First they look at how many students you're graduating, look at the wages they're earning, then look at the additional earnings in dollars associated with the associate degree. They they apply that to a formula based on the lifetime working span. Is it 30 years or 35 years? They have a very specific...it's actually a very conservative methodology and we're about to actually look at doing that a second time to update those numbers. But that comes from an outside agency that looks at how much additional costs, and they apply that over time. [AGENCY 83]

SENATOR WISHART: Okay. Thank you. [AGENCY 83]

SENATOR STINNER: I do have some questions. I have a hard time reconciling your numbers from what I see on my chart here. Two thousand seven you had 16,717 enrolled students on a full-time basis enrollment, is what I think that's meant, and it went to 14,942 which shows decreasing enrollment during this last couple years. And you're saying that you graduated 65,000? [AGENCY 83]

PAUL ILLICH: This is across the six community colleges we graduated 65,000. [AGENCY 83]

SENATOR STINNER: Across all of the community colleges. [AGENCY 83]

PAUL ILLICH: Yes, across all the community colleges. In the last...I've been here about... [AGENCY 83]

SENATOR STINNER: Okay. I just misunderstood what you were saying. [AGENCY 83]

PAUL ILLICH: Sure. I've been here about three years and just prior to when I came we had a decline in enrollment after a bump. In the last year, we're seeing a moderation. We're starting to see increases again in our enrollment, especially in our continuing education. We saw our second highest in ten years. [AGENCY 83]

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SENATOR STINNER: Okay. Your state aid has gone from \$17 (million) and then it jumped in 2008 about \$2 million, stayed fairly flat, and then it jumped again in 2010. How is the state formula working for you? [AGENCY 83]

PAUL ILLICH: Well, as you heard in the past, it really varies across. We have very different operations. In fact, SCC is a real mixture. We have, obviously, a large urban area in the Lincoln area. Then we've got a very large rural area that has 15 counties. So for us I think, because we have a lot of high-tech programs, I think, you know, our state aid has worked very well for us and has been very critical to supporting those very expensive programs that we have. In fact, in Milford, almost all of those programs are extremely costly to operate, so that state aid has recognized that. Because that formula that is based on how we're being funded now, if you recall, is based on something called reimbursable education units, which it applies additional dollars for the heavy tech programs. So if you've got like a welding or a manufacturing, you would get two times what you would get if you're teaching English, psychology, history. And if you're doing what they call light technology, you get 1.5 times. So because of the way our mixture of programs is positioned, the formula has worked pretty well for Southeast Community College. [AGENCY 83]

SENATOR STINNER: And your capital expenditures were \$17 million and \$3.2 million. What precisely was that about? What was that targeted at? [AGENCY 83]

PAUL ILLICH: Which year was that? [AGENCY 83]

SENATOR STINNER: This was 2015-16. [AGENCY 83]

PAUL ILLICH: Yeah, primarily that...those would have been...those would have reflected the career academy. That would be the primary. If you remember in Lincoln we partnered with Lincoln Public Schools with a very innovative initiative to try to figure out a way to increase and address that issue of lack of qualified skills. So we put...we split the cost of that. So \$11 million of that \$17 million went into that. And I don't...I can get you that list of those other projects. [AGENCY 83]

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SENATOR STINNER: Okay. [AGENCY 83]

PAUL ILLICH: But it's primarily career academy is what that's going to be associated with. We completed that this past year. [AGENCY 83]

SENATOR STINNER: You're still pursuing an expansion of your campuses? [AGENCY 83]

PAUL ILLICH: Yes. We're looking at pursuing the kind of methodology and the approaches that you just heard from one of the other presidents. We attempted that last year but it did not pass, so we're looking at other options within our 2-cent levy. [AGENCY 83]

SENATOR STINNER: Okay. Thank you. Any additional questions? Seeing none, thank you. [AGENCY 83]

PAUL ILLICH: Thank you. [AGENCY 83]

SENATOR STINNER: Welcome. Good afternoon. [AGENCY 83]

MICHAEL CHIPPS: (Exhibits 5 and 6) Good afternoon, Chair Stinner and the Appropriations Committee. I'm Mike Chipps, president of Northeast Community College, and that is spelled M-i-k-e C-h-i-p-p-s. I'm had the good fortune of being a Nebraska boy myself from Grand Island and the last 36 years of my career has been dedicated to three of the six community colleges. So I've served, I think, about 63 of the 93 counties. I was fortunate to hire Ryan, behind me, to lead, to actually be my chief financial officer, and he's done well since then. But so I have a deep love and respect for Nebraska community colleges. I serve it out of passion, not out of pay, because you know I'm from the Boelus...my parents are from the Boelus, Dannebrog, Mason City area, and I really believe in rural Nebraska specifically. Fortunately at Northeast I was brought in by Northeast to help build out our extended campuses. Senator Stinner, you've asked about that in particular. And I'd like to share a little bit on four different topics very quickly: the focus on governance, a focus on facilities, focus on training, and a focus on the funding issue. And I'll see if I can whip through that in five minutes or less. I think when it comes to governance, there's nothing like local governance. And I do hope no matter what happens with the funding issues is

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that local governance stays intact solidly for your Nebraska community colleges. I've worked with national boards because of the number of years of service and I've seen what happens to various states who reduce that into an advisory council, and that's most unfortunate. And most unfortunate, it happens largely because of funding issues. What happens to your community colleges...and I want to emphasize it is your community colleges, not mine. I just operate it on behalf of our board who operates on behalf of the constituents. We serve 20 counties, 14,000 square miles. I think we're bigger than five different states in America. We cover 211 miles of the Missouri River. You folks in the '70s did a wonderful job of organizing us regionally. But when you ask about enrollments, it's tough. You look at northeast Nebraska, you've got a major form of declining enrollments or population in that area, like you do you in many different rural areas. And so when you ask about enrollments, to be able to sustain, number one, and be able to grow is another story. You know we hear about the use, the wild use--I'll call it that--of our property taxes, but if you really take a look at that map that Dr. Illich provided to you, that's 5.4 percent of the total property tax pie. I don't know, I'm not much of a mathematician, but we focus sometimes microscopically on things when I think we, as presidents and as boards and as senators, need to focus on a much bigger picture. But the issue is that I know it's drawn attention to that because of what we've been doing. At Northeast I'm here to tell you the main reason I'm there is to help right-size an institution for its long-range future for the state of Nebraska and for our citizens, and that's our goal. So I want to move different facilities. When you look at the facility stuff that we supplied to Senator Stinner--appreciate all the questions you asked in advance of this meeting, Senator--you know, we've spent over \$65 million in facilities in the last ten years at Northeast but only \$18 million of that has been attributed to any type of taxation. You know you look at like the University of Nebraska Med Center. They came to us and said, we need a College of Nursing up in northeast Nebraska, will you help us? And so we actually, in 18 months, raised \$12 million. And so they said we would come. So now we can offer up to master's degrees at our campus in nursing. So it's really addressing those types of issues. If you look at our Applied Technology Center which gets some extra focus because it cost about \$10 million to do that--I think, Senator Hilkemann, you've even seen that center--we did something very novel. We saved money for years and years to be able to build that. We had heating and air conditioning people in the basement, in a damp, dark basement, that were teaching 40 students a year in heating and air conditioning. And I'll tell you, when your air conditioning goes out, I know when it comes to my wife, if it's hot she wants it cool, and so a number of our people come

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out of Northeast Community College to be able to provide those types of services to us. So basically we save money. We've actually gone out and raised money. If you look at our extended campus in O'Neill and what's happening in West Point right now, but O'Neill we raised \$3.5 million in a town of about 3,500 people. That tells you that postsecondary education is really important to them. Now let's go and move to the issue of property taxes. You know, I just...I always wonder. You know, when you look at the 11 board members that are elected for four years on a staggered basis to be able to serve our community college and to serve you, we often forget that those are taxpayers and I'm a taxpayer as well, and a major one at that. We have the likes of Dirk Petersen, the general manager of Nucor, that sits on our board. These are major people: Jeff Scherer of Smeal Fire Apparatus; you've got 5 farmers I think on our board of 11 and these are people that make decisions about property taxes. And it seems like they're willing to invest, not considered an expense but to invest in a community college and in our state in order to make sure we have a skilled, trained work force. When you look at Dirk Petersen, he put out 15 electromechanical students in front of me, graduates, and they earn up to \$80,000 a year, which for a two-year degree in electromechanics was amazing, but he can't live without them. So with that, I just want us, as a fellow Nebraskan, not as a president, to really give thought about what we're doing for appropriations. And with that, I'll take questions. [AGENCY 83]

SENATOR STINNER: Questions? Any questions? I have a few that...about the same order of business. [AGENCY 83]

MICHAEL CHIPPS: Uh-huh. [AGENCY 83]

SENATOR STINNER: The formula, is there places where you think it needs to be improved? Is it working for you? I noticed that a lot of your revenue now is still coming over valuation increases, so. [AGENCY 83]

MICHAEL CHIPPS: Uh-huh. It does. [AGENCY 83]

SENATOR STINNER: You're in a little different boat than maybe Western is and even Mid-Plains. [AGENCY 83]

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MICHAEL CHIPPS: Yeah. Valuations of course, Senator, you can notice they have gone up dramatically and so we've made up a lot of that difference. But then you also got to look at the state support of us, which happens in America. We've got serious problems in a variety of states that have either zeroed out the amount that state aid provides...we've gone from 38 down to 31 percent, so we're trying to make that up in other means, not just by tuition. Because our board, they consider residence halls and all that as business operations. But when they consider tuition, it's about affordability and accessibility, so we keep it low. And it's amazing because you go to Iowa where they've done away a lot from state aid and the issue is that they're at twice the tuition that we are in Nebraska. So you got to be careful. Everything is really relative, Senator.

[AGENCY 83]

SENATOR STINNER: Okay. [AGENCY 83]

MICHAEL CHIPPS: And the formula doesn't...it works as well as we make it work. I worked 9.5 years on the previous formula with all the presidents and we finally didn't come up with a formula; we came up with a distribution system that works relatively well considered 9.5 years of work on it. [AGENCY 83]

SENATOR STINNER: Does it work when revenues are going up? How about when they're going down like they are now? [AGENCY 83]

MICHAEL CHIPPS: Nothing really works when it comes to going down. Going up this thing, this distribution, works fairly well. We get 14.05, I think, percent if I remember right of the total share of what the state appropriates for us. And actually we have tried. The beauty behind Nebraska community colleges, we have tried very hard to make sure that we remain whole, and that's all of us. So that's why it took 9.5 years the last time to get through all this to try to figure out what type of a system works fairly well. There's nothing that works perfectly. It's very difficult. But the issue is we make adjustments, like you did with the 4 percent decline here. Some people complain about our reserves, but basically we set aside money for rainy day funds just like hopefully you do yourselves with your own personal incomes. You've got to set aside--I think we've got three or four months in reserves--when things go south on us. So we're trying to manage the taxpayers' contribution, the state's contribution, the students' contribution in a very

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wise and prudent manner. So sometimes I think we lose track of those, being fellow Nebraskans.
[AGENCY 83]

SENATOR STINNER: Does tuition matter? Western is at \$112, you're at some other number.
[AGENCY 83]

MICHAEL CHIPPS: I've consulted with over 60 colleges and universities in 36 years and I would like to automatically tell you tuition matters. I would really like to sincerely look you in the face and say tuition matters. I'm here to tell you I've worked in states where it's double and it doesn't slow up the enrollments at all. And you can argue it all you want, but mostly it's based on the backs of us, the taxpayers. Financial aid actually supports a lot of these types of issues. So should I say tuition matters? I think it's part of the formula, part of the concept, part of the concern. And I think really if you look at the \$1.3 trillion debt we have today in school debt , in school loan debt, you really wonder whether tuition matters when you have other people paying for it. So that's honest. [AGENCY 83]

SENATOR STINNER: Senator Bolz. [AGENCY 83]

SENATOR BOLZ: Respectfully, as a part of the generation that has one of the greatest student loan debt challenges, I would state that tuition absolutely matters. Graduates from Nebraska schools graduate with an average of \$26,000 in debt. That means we're not buying homes. That means we're struggling to keep up with those payments along with every other basic need. If we can't recognize in this committee and as a commitment to higher education that tuition absolutely matters, we need to go back to the drawing board. Thank you. [AGENCY 83]

SENATOR STINNER: Senator. [AGENCY 83]

SENATOR WATERMEIER: Thank you, Chairman Stinner. You can see you lit up a light for Senator Bolz, my friend over here. I think what you were getting at is in the elasticity of what it costs to go to school that it does not matter. And I think I get what you're saying. I certainly get what Senator Bolz... [AGENCY 83]

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MICHAEL CHIPPS: Yes, very much so. [AGENCY 83]

SENATOR WATERMEIER: ...is saying because, yes, you can't buy...you come out of school and you're in debt, you can't buy a home. But what you're saying is that it doesn't look like it's an elastic number. When the tuition goes up or down, it seems like people are going to school or not or they're having a sponsor go to school. So I think you're talking about maybe two different things. If you wanted to expand on that, be my guest, Mike. [AGENCY 83]

MICHAEL CHIPPS: Well, Senator, it really has to do with the practical versus the philosophical. You know I have hundreds of students I've met with, with being on the Board of Trustees of the Higher Learning Commission and being at these colleges, and to ask them, what does your tuition cost, they don't know. [AGENCY 83]

SENATOR WATERMEIER: Right. [AGENCY 83]

MICHAEL CHIPPS: I'm here to tell you it is important. I'm not saying it isn't important, Senator Bolz, at all, because I know tuition is important. I'm here to tell you when other people are paying for it, it is a different kind of conversation. That's what concerns me. Now I'm here to tell you one of the best things that we've done in Nebraska versus the rest of America is trying to keep it affordable and accessible for our students. Now that's a different type of conversation than I'm talking about. We have a responsibility to make the...what I think what she's after is the issue is we've got so many people that can't even think about going to college, period, or think about changing their lives or think about even registering, not just from the issue of the lack of knowledge or lack of confidence. It's the lack of having the means to provide it. Now that is different, that conversation, and we have a responsibility as fellow citizens to give an opportunity to every individual, especially to community college, to be able to succeed, period. [AGENCY 83]

SENATOR STINNER: I think it's also the cost of entry. The cost of entry into business, you have to have a business degree. When I was there, it was \$1,800 a semester. Now it's \$30,000. So that's the other dynamic that I'm getting at. [AGENCY 83]

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MICHAEL CHIPPS: It is. [AGENCY 83]

SENATOR STINNER: I thought it was interesting, state colleges were here before. Their tuition is the same in all three locations. Does that concept work with community colleges, because you're saying we're all in this together. We're all trying to do affordability tuition. Is kind of an important ingredient a work force development as an initiative at the state level? Should we be looking at something that levels the playing field a lot more? [AGENCY 83]

MICHAEL CHIPPS: You're asking for a simple answer to a very complex solution. I just...I really...I just...I like the autonomy that Nebraska allows for its community college system to be able to do what's right for the service area which it's existing in. And those differences really, when you think about it, aren't that great. I know that, you know, Todd has the highest. We're probably...I think we're second highest, Todd, behind you. But our board made a conscious effort. What I do is I give them seven different columns. I don't tell them what the budget needs to be. I just list out things to think about and then they make that decision, because to me it's part of their responsibility to do that, tuition being one of that. I had a question from someone the other day: Give me what you're going to propose to the board for tuition. I said, I'm not. I said, that's the board's decision, not my decision. They need to be given things to think about and then decide because they're deciding for 158,000 constituents in that area what seems to be reasonable and affordable. [AGENCY 83]

SENATOR STINNER: Okay. Thank you. Senator Watermeier. [AGENCY 83]

SENATOR WATERMEIER: Thank you, Chairman Stinner. Dr. Chipps, I'll ask you maybe this philosophical question a little bit. I'm all about work force development, economic development, how it all ties together. And I'll ask you. Maybe there will be somebody else that's going to follow, but because you made that comment that you've worked in 63 out of 93 counties, that was kind of an interesting statistic. What is the future for work force development and the role that community colleges play? Thinking about...and I realize you guys feel like you're in a threat with all that's going on inside the Legislature today with talking about taking away your bonding authority and things, but where do you see the future is with community colleges and all the partnerships that are yet to come today and unknown partnerships that we haven't even tapped

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into yet? That's a big question, I get, but I'll just throw it out to you. Because we need to address the work force issue, no doubt about it, but how do we do it without building brick and mortar? And how do we do it with better partnerships? How do we instill that? How does the partnership of the Legislature with the community colleges look do you think? [AGENCY 83]

MICHAEL CHIPPS: Well, unfortunately, very biased, being a fellow Nebraskan all my life,... [AGENCY 83]

SENATOR WATERMEIER: Oh, I know you're not biased. [AGENCY 83]

MICHAEL CHIPPS: ...number one; and the other one, Senator, has to do with the issue of what I think about work force development. I actually asked a question the other day that will get somewhat philosophically at what you're asking. What if--and I don't know if any of you can do this--but what if you could take community colleges out of your equation totally; we did not exist? [AGENCY 83]

SENATOR STINNER: What if we had one community college that had branches and in all the communities with the same tuition, the same dynamic that you all have, as opposed to being autonomous? [AGENCY 83]

MICHAEL CHIPPS: Yeah. It's a good question too. I don't have a specific answer for you, Senator. But if you really give thought to that, if you removed community colleges out of the formula, out of the equation, out of the...we don't exist anymore, who's going to provide those services, period? Who's going to do that? From a senator's viewpoint, who's going to provide that skilled work force concept the senator asked about? Who's going to do that? And who's going to do it in a relatively minimal investment with a tremendous return in a short amount of time and give livable wages that people can continue to live in rural Nebraska and grow the food that I enjoy? I mean it's a lot bigger than that, but basically we love to eat and I think rural Nebraska is largely responsible for that, as the breadbasket part of the world, and yet what are we going to do? Because like if you look at like we've got 80 different programs and concentrations. We started with three students in agriculture in 1973 at Northeast Community College with nothing but a 100-year-old facility that was borrowed from the Norfolk Regional Center. It was their old

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dairy barn. We now have 350 students in agriculture--the largest in the state, and I'm even talking beyond community colleges, 500 contiguous acres, four pivot irrigation systems you know that...and 82 percent of those go back to the farm and ranch or in ag and ag sales. Where is that going to come from? And it's rhetorical. But you talk about work force development, Nucor, a mile from us, to be frank with you, how could they do it without our electromechanical graduates? How could they keep those super huge machines running? They just put a new line in at \$75 million. They just refurbished that line and our people keep it running. I mean I don't know how to go...how deep we need to go with this conversation because people give a lot of lip service to community colleges, but I'm saying take us out of the equation for a while in your head and see where we're at as fellow Nebraskans. It's not a threat. I'm too old for this. I mean I've got silver hair. I won't be in it much longer, but I am a Nebraskan through and through.
[AGENCY 83]

SENATOR STINNER: Senator Hilkeemann. [AGENCY 83]

SENATOR HILKEMANN: Yes, sir, I'm just going to make a couple of comments. One of your colleagues earlier talked about the advantage that you have from the philanthropic community, and I just want to note that, and I know that you lost one of your major philanthropic individuals and that to your community college, and Mr. McIntosh was a great supporter of yours.
[AGENCY 83]

MICHAEL CHIPPS: Yes, he was. [AGENCY 83]

SENATOR HILKEMANN: And I just am thankful that we have those people in those communities that will step forward and help you out. And that's the statement. I'm going to just ask you a very hypothetical, this came up, this question came up three weeks ago when I was getting my hair cut. We were talking about cosmetology and the question was, you know, these cosmetologists said it costs about \$50,000 now to get a degree in cosmetology. Why do not...do any of the...do any of our community colleges provide programs in cosmetology or barber?
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MICHAEL CHIPPS: Nationally, many of them do. But frankly, and I'm speaking only for myself and working at three community colleges, when you have those schools next to you and you're worried about duplication of services, it really concerns us. Serving on the Board of Trustees of the Higher Learning Commission actually we just did a merger of a cosmetology school with a community college because they, the owner, aged out and left, but it left that great void. So they did bring it into the community college. That made very good sense to do that. But you're right, it is high. But the issue is how far do we duplicate services? That's my greatest concern.

[AGENCY 83]

SENATOR HILKEMANN: Okay. I just...we had an interesting conversation about it and I thought that if there was a profession that should...could be incorporated into community colleges, you would think it would be. Yeah, you're already talking with UNMC about programs. And when I heard what it cost to get a cosmetology degree today I'm thinking wouldn't they be better off, wouldn't that be a wonderful marketing tool for the community colleges? [AGENCY 83]

MICHAEL CHIPPS: We'd love it. It's just the issue of duplication of it. [AGENCY 83]

SENATOR HILKEMANN: Okay. [AGENCY 83]

MICHAEL CHIPPS: I still haven't really directly answered your question. The issue is that community colleges, and I can speak for all of them, do not have one...we can't hardly move a muscle without "partnershiping" with someone. I don't know how not to do that. If you look at our recent West Point academy, we're trying to put together an academy without doing a lot of brick and mortar, able to put a little extended piece onto our technical facility, onto our campus down there. But we have six schools, instead of trying to build something themselves, all six schools are going to unite with the community college. We're going to do our career academy with them. We will do our Center for Enterprise Entrepreneurial Training in the evenings or weekends, and we'll do our traditional training all in the same place. The other thing that we got to give thought to, I thought when on-line took place, I just thought why am I asking for brick and mortar, Senator? And so the issue is we know that on-line is not working as well. If you look at the University of Phoenix, they've gone from 450,000 students, which is part of our

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accreditation piece, down to 190,000 or so students. The issue is we're finding out we can't retain these people. A lot of people think that on-line was the answer to brick and mortar, but we're finding out that people don't complete. So there's a real concern about that nationally as well as here. So we got to watch the different types of vehicles, the simple solutions we have to very complex human problems or human issues. Therefore, we still look at brick and mortar and I hope you still support that, and it's not by deferred maintenance, like Ryan said. And I think people lose sight of that with us. That 2 cents, we just didn't do a lot of maintaining of our facilities because we just didn't have the wherewithal. Nothing wrong with the university or state colleges coming to you for a special fund to be able to fund their buildings. I understand that. But we don't have those so we have to figure out ways to accommodate it. That's why sometimes our levy looks a little bit higher. It just does. We actually could charge 11.25. You gave us 11.25 authority at Northeast. You know what ours is today? It's 9.1. The board does not want to go up to the 11.25. And actually, with us in particular, you've got us capped where we can't move even if we wanted to. We just keep doing this. We move the state aid and the tuition and the property tax piece around trying to just make it work. But it's okay. You asked me about the formula and how it's working. But if we're at 9.1, we were at 9.5 I think three years ago, we keep dropping it and, yes, valuations has helped us but we're still dropping that levy. So it's all these...there's just so many complex pieces to what we consider to be a simple question. [AGENCY 83]

SENATOR STINNER: Senator Watermeier. [AGENCY 83]

SENATOR WATERMEIER: Thank you, Chairman. Let me just follow up, Dr. Chipps, a little bit, because I appreciate where you went when you mentioned the partnerships, because that is where I believe the key is. I was hoping you were going to head that direction as well. When I think about government's role in work force development, economic development, and even getting into housing for our work force is that I look for those opportunities to get the best interest in the private's hands because I don't think that government itself has enough vested interest to manage its own business, in some ways, okay? So any chance I can invest in something that has the private partnerships that you were talking about, I'm all in because it moves that liability of the future liability into the private's hands, private industry's hands, because they will be much more flexible, much more fluid in looking ahead and seeing we got a huge problem coming in this liability, we're going to manage it correctly. So I see the community

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colleges as a arm, as you will, of the Legislature or the state of Nebraska because you guys can reach into those businesses and join those partnership; we can't. We're not flexible enough to do it; but you are. But I want you to be mindful, and I'm speaking to community colleges in general, that you've got to keep that vested interest very clearly on the other side of the wall and not on your side. If you can do that, to me, you'll have a great partnership with the Legislature and then you'll have a partnership with the vested interest of the private industry, if that makes sense what I'm saying. [AGENCY 83]

MICHAEL CHIPPS: So now it's a four-legged stool. [AGENCY 83]

SENATOR WATERMEIER: So...well, yeah, say what you want. [AGENCY 83]

MICHAEL CHIPPS: It really is. [AGENCY 83]

SENATOR WATERMEIER: But what I'm saying is anything you can do to sell me on this idea moves a vested interest out of our hands, as the Legislature, even out of your hands and into the business community, because I believe in that ability for them to manage those assets. [AGENCY 83]

MICHAEL CHIPPS: So Black Hills Energy, with the Applied Technology Facility, was basically a \$9.1 million facility and about \$1.68 million in equipment. And that equipment, we went out to Trane corporation and said, you got to help us here. If you want us to train the best heating and air conditioning folks and add a plumbing diploma, which we're the only one I think in the five-state area now to have a plumbing diploma, is to put that together, you're going to have to help us design it and fund it. It's the same way with Black Hills Energy. Black Hills Energy, we say, we need help with this and you're going to have to step up to the plate and help us. We...it's a four-legged stool and we've always said three-legged here in Nebraska, but that fourth leg is private industry and we've got to figure that out better. But we do a great job with it, I'm here to tell you, better than any type of higher education institution on this type of short-term skilled work force development piece. It is. [AGENCY 83]

SENATOR WATERMEIER: Thank you. [AGENCY 83]

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MICHAEL CHIPPS: Thank you. [AGENCY 83]

SENATOR STINNER: Any additional questions? Seeing none, thank you. [AGENCY 83]

MICHAEL CHIPPS: Thank you, Senator. [AGENCY 83]

SENATOR STINNER: Good afternoon and welcome. [AGENCY 83]

RANDY SCHMAILZL: (Exhibits 7, 8, and 9) Thank you, Senator Stinner and committee. Randy Schmailzl, R-a-n-d-y S-c-h-m-a-i-l-z-l. I'm the president of Metropolitan Community College in Omaha, Nebraska. I'm going to start with two handouts that we're handing out right now, and I'm trying to simplify a complex entity called Metropolitan Community College so we can talk about it in a couple minutes. Quick facts about Metro: We have 26,000 students that are individually taking credit classes at the college in 2015-16; 50 percent of those students are over the age of 22. So, you know, many times in our discussions when talking about students directly coming to the colleges out of high school, and at Metro we have a very large adult population of others that have gone to other colleges and stopped out or stopped out of the work force or never gone to school. Our average age is 27; 55 percent female, 45 percent male. We have the largest minority enrollment in the state--31 percent of our students are from minority backgrounds. Only 30 percent of our students are full time and that's an important thing to remember and that's in this economy, because many of our students have jobs, they have families, and so requirements outside of education only allows them to go part time. And the last figure, the 19,000-plus individuals for noncredit, those are students that take adult learning, business and industry, work force development, and they're not run through the funding formula. These are students that Metro pays for. We try to do it on a cost-benefit, profit and loss. And so nowadays in education I think a majority of people see it as a commodity and they want to purchase X percent of a commodity and get a competency and move on into the work force. And so our theme in the last seven years has been try to move the student from point A, wherever they're at, to point B, and that's get a job, get on the tax rolls, live the American dream, buy a house, get a car, do all the things. And the only way you're going to do that is through education. On the next page there's a pie chart. I just wanted to mention where our revenue comes from: 45 percent of it comes from local property tax, 27.5 percent from the state appropriations through the Legislature, 26 percent

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is through our student tuition, and then a very small percent through some contracts we got for towers and IT stuff. We cover four counties and our four counties represent 40 percent of the state's population. It also represents about 47-48 percent of the state income tax and 47-48 percent of the state sales tax. So Douglas, Washington, Sarpy, and Dodge County: You can see our primary locations that we have there and they're spread out through the four county areas. You have a sheet that breaks down the community colleges in terms of their valuations and their tuition and everything, and it's a long sheet. So I went ahead and boiled down a sheet that has a little larger numbers for me to read and it's five years of general fund historical budget at Metro Community College. And if you go to the far right side, in this year's budget \$45 million of our budget came from local property tax, and the state appropriations number is not accurate because we just took a cut for \$1.2 million but that hasn't come in yet. So our initial figure was \$27.2 million and now it will go down to \$26 million with our 4 percent budget cut, which when we run it through the formula is 4.54 percent for Metro. Tuition we estimated on \$26 million. And so our total revenue that we can gather is \$98,000, almost \$99...\$98 million, almost \$99 million. Our expenses that we budgeted this year, we're budgeted for \$104 million in expenditures. And so that leaves a deficit of, in this case, \$5.3 million. And when we lose the \$1.2 (million) it will be \$6.6 (million). Now that deficit comes from our cash reserve. We carry a cash reserve because we can't collect enough revenue through property tax and tuition and state aid at existing levels to fund the college, so we have to rely on saving money, not spending all our money, and budgeting in a reserve back as a deficit. So you can see over the last five years for Metro, if you look at our revenue, it's gone up about \$4 million in those five years. And our expenditures have gone up about \$7 million in those five years. And then our deficit has stayed about the same, and I want to draw that to your attention because not always do you have enough revenue coming through the door to run the college. And through some good work by our board of governors administratively, we've been able to keep the ship afloat with about \$100 million in general fund. Now we have a \$90 million building project and so over in our reserve we have \$25 million cash in the general fund, and that's O&M to open these buildings that we've saved over the last years. This \$90 million has come from donations locally and anytime you're asked to raise \$90 million, you know, give me a call because I'd tell you not to try to do it. It's a tough job out there. But we're very lucky in Omaha that we have philanthropists that want to donate in the community college and support us. So our students participate in that. They pay \$5 fees. We have \$96 as our tuition rate, plus another \$5 of fees on top of that, so \$5 per credit hour goes towards our capital

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improvement. As I said, the property tax, you know, there's a 2-cent capitalization in our property tax. We take...we charge 2 cents, and then 7.5 cents goes to the general fund. So 9.5 cents is charged to the local taxpayers in Douglas County. That's about 4.1 percent portion of their tax bill. We averaged out the average tax bill in Douglas County; it's about 4 percent goes to Metropolitan Community College. The problem that we run into in the funding formula--and, Senator Stinner, you've asked that so I don't want to miss my opportunity--is that it doesn't reflect all the revenue. I don't believe the funding formula is as good as it could be. I think it needs to reflect the changes in revenue as colleges grow and decline and as property taxes go up and go sideways. You know, at one point Metro Community College had by far the largest valuation in the state of Nebraska, in our four counties. There's many others now that are real close to us because our valuations over the last years have not gone up drastically--ours has only gone up 20 percent in about ten years--because we only have 5 percent of our valuation from ag land; 95 percent comes from residential property and businesses. And you know, we're going to run into a dilemma this year with our Douglas County property tax valuation problems we got. So I can't tell you today whether our tuition is going to go up or not. It depends a little bit on our valuation. Last year we raised the tuition \$3, the year before that \$3, and so that's a 7 percent increase in tuition for our students in the last years. The assumption, you know, in community colleges is that it's been funded by the state sometimes at the perfect level, and I don't believe that. I think there's a lot of imperfections in funding at all levels of the state. The Legislature has really tried hard to fund us. I got to give you credit for seeing the community colleges as a gap filler. When there's a gap in education, it's up to the community colleges to fill that gap. We've had a lot of things handed off to Metro in the last years. GED: Omaha Public Schools no longer does GED, Bellevue doesn't do GED. That was a mere 5,000 students that came our way and it was a classic unfunded mandate. But we've been able to make it work. English as a Second Language, the refugees that come over and the churches that bring them, they leave them at our doorstep and we have to accept the challenge to train them because in high schools they only are allowed to age 21. So anybody over the age of 21 that comes needs to come to the community college. The noncredit classes that I talked about, the dual enrollment transfer, you know, our schools offer...all the schools offer an opportunity for people to come at a reduced price and then transfer to a four-year education. Omaha now has the highest rate ever of citizens going on to college and that is because of the community college and UNO and Metro's effort to work together as a government entity. And our credits, in the summer we have about 15,000 students

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that come to Metro from a thousand different colleges and universities that come back to Omaha and take classes at Metro because they transfer anywhere in the United States. And the service that we provide as a community college resonates throughout the community. And basically there's two types of people in Omaha--those that attend Metro and those that will attend Metro--and we believe that. Because everywhere you go, somebody has got something to do with Metro because, hopefully, we're everywhere. That's what makes us a community college. This legislative session so far, we've been working on preserving our reserves that we planned on. That's been in a bill. Property tax, doing away with our ability to levy property tax and local control. And I can't say enough appreciation for the Appropriations Committee to consider a level playing field for reducing our potential cut into the future. And with that, I'm going to stop and answer some questions. And, Senator Kuehn, I hope I pronounced that right,... [AGENCY 83]

SENATOR KUEHN: Uh-huh. [AGENCY 83]

RANDY SCHMAILZL: ...I do have for you the FTE numbers and they can make a copy of that and keep that. And I got a copy at home, okay? So it's from the Coordinating Commission. It's no Metro numbers, no funny numbers but from the Coordinating Commission. [AGENCY 83]

SENATOR STINNER: Thank you. Questions? Senator Bolz. [AGENCY 83]

SENATOR BOLZ: You referenced your cash reserve, and we had a conversation with the university yesterday about the cash reserve. Can you just talk to me about what you think an appropriate cash reserve for an institution like Metro is, what this proposal might... [AGENCY 83]

RANDY SCHMAILZL: Sure. [AGENCY 83]

SENATOR BOLZ: ...do in relation to (inaudible)? [AGENCY 83]

RANDY SCHMAILZL: You know if you would take our cash reserve and divide it by our number of students, we'd probably have the lowest cash reserve per student. When you look at

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our cash reserve, we've got the highest, probably, of them. And I think, you know, right now it's 50 percent, 50 percent of your budget is the rule that we have to live by. And for our new buildings, we're looking at about a \$40 million general fund reserve, but only \$25 million is cash value. The other \$15 million is uncollected property tax that hasn't come in yet. So I'm going to say that the appropriate reserve for a college the size of Metro Community College is in the range of \$25 to \$35 million and that has to do with anytime you build a building you have to fund that and pass those costs on either through increased tuition, increased property tax, or coming to the Legislature. And when you don't have any of those that really sound good, you have to continue to save money. And the way we save money is on our budget. Instead of spending 100 percent, we try to spend like 96 percent and 95 percent, and then roll that 5 percent in. So I would say \$25 million to \$35 million for a college the size of Metro in the general fund.
[AGENCY 83]

SENATOR BOLZ: And you are currently at? What is your current cash reserve level?
[AGENCY 83]

RANDY SCHMAILZL: Our current is \$25 million cash and about \$17 million uncollected property tax, for \$42 million, but... [AGENCY 83]

SENATOR BOLZ: Uh-huh. And do you have any concerns about being able to maintain an adequate cash reserve? [AGENCY 83]

RANDY SCHMAILZL: Do I have concerns about that? Not today, but if we continue to have deficit situations and lose, you know, revenue then, yes, I will into the future and so...
[AGENCY 83]

SENATOR STINNER: Thank you. Additional questions? I have a few, but it looks like, when I was looking at your chart, I remembered there was a housing crisis that hit Omaha, wasn't there,... [AGENCY 83]

RANDY SCHMAILZL: Yeah. [AGENCY 83]

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SENATOR STINNER: ...because your valuations actually went down? [AGENCY 83]

RANDY SCHMAILZL: Yeah. [AGENCY 83]

SENATOR STINNER: During that period of time when you were trying to guess where valuations were, was that a matter that we have cash reserves to cover that or were you coming to the Legislature and asking for additional funding? [AGENCY 83]

RANDY SCHMAILZL: Coming to the Legislature for additional funding was not in the cards. I mean we're part of a larger group and so anytime you give us funding it goes into the funding formula and that's how we get our money. So, yes, we needed cash reserves because we didn't know for sure what our property tax was going to bring us. And our board really didn't...doesn't...they do not want to go up in property tax. We're at 9.5 cents and the two times that we've gone up in property tax in the last ten years, one has been because we lost state aid and the other time because of the extra penny that we could charge for capitalization. And we took advantage of that for our new buildings as part of the taxpayers helping us pay for the building. [AGENCY 83]

SENATOR STINNER: What would be your recommendation on the formula as far as an adjustment to it? [AGENCY 83]

RANDY SCHMAILZL: Well, you need to look at all revenue sources. You know, property tax valuation and the state commitment and tuition, and then figure that out as to how locally you can generate enough money to cover your expenses. And the state, we've always used the state aid as a way to keep our tuition down and our enrollment up due to low tuition. And we haven't been using it as an answer to run the college, so we relied on property tax and student tuition to do that--two things we could control. Those are important things. And I'm not sure how they fit in the current formula in a positive way. They fit in but I think that I'd have to...my answer would be, no, the formula doesn't work totally and it doesn't take into account all the revenue sources that we need to take into account. [AGENCY 83]

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SENATOR STINNER: And us being a 27.5 percent partner in your community college, should we ever have a say in capital expenditures and what you're spending money on that will eventually end up as an expense item? [AGENCY 83]

RANDY SCHMAILZL: We're...no, you don't and the reason is because all the money that we get from the state goes into the general fund. [AGENCY 83]

SENATOR STINNER: I know we don't, but should we? [AGENCY 83]

RANDY SCHMAILZL: Oh, should you? Yeah, of course you should. I mean as a partnership I think you should and... [AGENCY 83]

SENATOR STINNER: That's the kind of way I look at partnerships, right? [AGENCY 83]

RANDY SCHMAILZL: ...you know, and I would like to have you as a partner because at that time I'd feel a little bit better in asking the partner for some money to help us out. Right now I have no methodology to come to you and say, I need \$10 million to build a brand new industrial trades facility. You know, I'd get...I don't know if I'd made it the floor with that one. So, yes, I do see the Legislature as a partner on that. [AGENCY 83]

SENATOR STINNER: Thank you. Any additional questions? Seeing none, thank you very much. [AGENCY 83]

RANDY SCHMAILZL: Thank you. [AGENCY 83]

GREG ADAMS: Senator Stinner,... [AGENCY 83]

SENATOR STINNER: Welcome. [AGENCY 83]

GREG ADAMS: ...members of the Appropriations Committee, my name is Greg Adams, G-r-e-g A-d-a-m-s, executive director of the Nebraska Community College Association. And let me begin by saying I'm probably not even supposed to be here to testify. We kind of had this worked

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out, right, and I was going to stay quiet. And in addition to that, the presidents that have preceded me have really told the story. But I just felt compelled to try to tie up some loose ends. And if there are any questions, I probably can't answer them as well as these fellows but I'll certainly try. Before I came to the Legislature and on to this job, I spent 31 years teaching at a high school in York, Nebraska, seniors and juniors. And when I started in 1976 and when I ended in 2006, a lot of things remained constant and some things changed. And one of the things that I saw most markedly that was changing were the number of students that I had in class that were openly--because sometimes they wouldn't talk about it--openly saying, I'm going to try community college. You know, there's so much pressure on a kid to go to college. Rather than say, get some education beyond high school, it's, go to college, and there's that four-year thought. And every year there were a certain number of students, I knew who they were, that would say they were going to go to college. They weren't ready, maybe intellectually but primarily emotionally and just from a confidence standpoint. And there were a certain number of them that just didn't want to go sit in math again. They wanted to work on auto body or they wanted to weld or they wanted to do electronics. They didn't want to be an electrical engineer; they wanted to be an electrical contractor. But for so, so many years in our public education system, not just in Nebraska but all over the country, we created this context that you have to go on to college, you just have to. That was fine and we built curriculum in every one of our high schools around getting into the four-year world, what do I have to do to get into the four-year world. And in so doing you know what we did? We created what I call a lost cohort of students. They are that percentage of students in every high school, I don't where it's at, if it's in Millard or Hyannis, in every high school this lost cohort of students that just didn't know where they fit because of money, because of not having the confidence of whether I can get education beyond high school, or because I really don't want to go to college if college means that I can't go grab a wrench or I can't work on electronics; I want to do something different. More and more, in the time that I spent teaching, I saw students openly saying, I'm going to choose to go to Central, I'm going to choose to go to Southeast, because they can afford it, it was a place to start, and for some of them, it's exactly where I want to go because I want in culinary or I want into electronics, whatever it may be. Now I say that, and I'm probably preaching to the choir--you already know that. More and more students are coming towards the community college and what we are asking of the community college grows daily. And when I say "we," I'm not talking necessarily about the Legislature. I'm talking about even the K-12 world. Can you fix what isn't quite ready? They

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may be eligible, but are they really ready for college? And by the way, community colleges are open access; we take all comers and we try to get them to the point of ready. The adult ed world, people coming back saying, things aren't working for me, I want to do something different, and we take them all. We are the HR departments, literally, our colleges are the HR departments for so many businesses in Nebraska that are small, that can't afford to have their own HR department. They come to a Western or they come to a Metro and say, can you do specialized training; can you help me find...; can you create this? And we do, with the resources that they have available to them, and property tax is one of them. And if you look at the charts you can see, as state aid ebbs and flows, so does that levy ebb and flow. It's something that you just have to consider. That yellow light is on. I know my time is about up. And this formula, I'm not going to take credit but was there when it got created, spent a lot of hours in a room with these guys behind closed doors. It's not perfect. I will tell you, quite candidly, in my opinion, it's a political solution because we had trouble on our hands and we had turmoil and we were going nowhere and we needed to find some resolution. And literally, we found it right before Christmas Eve. I don't think there is anything significant about that. And we came to the Legislature with the formula that they have. A lot of other things need to be looked at inside of that formula. And I would tell you this. Community colleges, just like the K-12 formula, there's no perfect formula. It doesn't exist. And one of the biggest reasons is because all schools do not look alike. If they were all the same size, all looked alike, TEEOSA wouldn't be a problem. You wouldn't be going up on the floor in a few weeks saying, oh, my God, and you're going to, because you could just hand it all out equally and it would be just right. But it doesn't work that way, nor does it with our colleges. Thank you for your patience. I'll take any questions. [AGENCY 83]

SENATOR STINNER: I think what we're trying to figure out, we think that work force and work force development is one of the most important, long-term initiatives that we have. And we look at community college as being the key to that. [AGENCY 83]

GREG ADAMS: Yeah. [AGENCY 83]

SENATOR STINNER: Plus the affordability of education, that's becoming a bigger and bigger and bigger item. [AGENCY 83]

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GREG ADAMS: You're absolutely right. [AGENCY 83]

SENATOR STINNER: So what we're trying to do and what I'm trying to understand is how good is this formula? I know when it goes up, nobody complains. But when we stress it down, then bad things happen. So is there a different formula? Is there a different thought process in how we fund these community colleges in order to keep them robust institutions that we need to have to develop work force and keep affordability as a factor and that's fair and proportionate, fair and equitable? Whatever word you want to put on it is what I'm trying to figure out and trying to seek. [AGENCY 83]

GREG ADAMS: And appropriately so, Senator. There is no perfect formula. Whether it's this formula or TEEOSA formula, they go through evolution and you have to relook and you have to remodel and you have to reanalyze. And this formula is probably at that spot where it needs to be reexamined and everything has to be considered. [AGENCY 83]

SENATOR STINNER: Appreciate it. Any other questions? [AGENCY 83]

SENATOR CLEMENTS: Yes. [AGENCY 83]

SENATOR STINNER: Senator Clements. [AGENCY 83]

SENATOR CLEMENTS: This chart of FTE students, all of the colleges maxed out in 2011 and it's dropped, the total has dropped from 36,000 to 27,000 in 2016, a 9,000 drop. Can you explain that? [AGENCY 83]

GREG ADAMS: I don't know that I can, but I'm going to give it a shot because I'm here and then these guys can chew me out if I'm wrong when we walk out of here. One of the things that you'll find with community college enrollment is that it ebbs and flows. It ebbs and flows. For instance, if you look at when enrollments were popping up, it was during the Great Recession. That's when you have people that have been transitionally unemployed and they're looking for something different or they're just throwing up their hands, saying, I'm not staying at this; I'm going to go try something different. So you have that factor. I would tell you the other thing, and

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I've just, because I'm new to this job, I'm just getting more and more exposed to it. When I asked these folks about enrollment numbers, there are six colleges, six different answers. And depending on who I ask on the campus, you know, all these different people, because you have credit enrollment and you have noncredit enrollment and you have noncredit nonreimbursable enrollment, and it's...it can be all over the place. For instance, the specialized training that a Western might have done for Cabela's, that may not show up in those FTE calculations and the pure enrollment calculations that you see. But it's a big part of all six of our campuses of doing specialized training for businesses. [AGENCY 83]

SENATOR CLEMENTS: Oh, okay. Thank you. [AGENCY 83]

GREG ADAMS: I wish I could be more definitive. [AGENCY 83]

SENATOR STINNER: I think, too, in a business downturn that we witnessed during that time, people go back and seek more education. [AGENCY 83]

GREG ADAMS: That's exactly right. [AGENCY 83]

SENATOR STINNER: So that's another... [AGENCY 83]

GREG ADAMS: That's exactly right. [AGENCY 83]

SENATOR STINNER: ...phenomena that happens in education. Okay, any other questions? [AGENCY 83]

GREG ADAMS: Thank you for your patience. [AGENCY 83]

SENATOR STINNER: Thank you for your testimony. Any additional proponents? Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, that concludes Agency 83, Community Colleges. Thank you. [AGENCY 83]