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Nebraska Retirement Systems Committee
January 19, 2017

[LB29 LB94]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Thursday, January 19, 2017, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB29 and LB94. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; Mike Groene; Rick Kolowski; and John Stinner. Senators absent: None.

SENATOR KOLTERMAN: I think we're going to go ahead and get started here. Welcome to the Nebraska Retirement Systems Committee hearing. My name is Senator Mark Kolterman and I'm from Seward and represent District 24. Committee members and staff are: to my left, Senator Lindstrom from Omaha, Vice Chair. Senator Groene told me he would be joining us. Senator Kolowski; Senator Kate Bolz from Lincoln; and Senator John Stinner from Gering. My committee counsel is Kate Allen to my immediate left. My clerk is Katie Quintero to my...way to the right there. And the page today is Bobby from Papillion who is majoring in political science. We're here today for hearings on LB29 and LB94. The committee will take up the bills in the order posted. Our hearing today is the public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. The committee members will come and go during the hearing. We have to introduce bills in other committees and are called away at times, probably not today; it's not an indication we're not interested in hearing the bills, just part of the process. We'd ask you to turn off your cell phones. If you wish to testify, please fill out the forms. If you're a proponent...we're going to go proponent, opponent, and neutral. The blue sign-in sheets should be handed to Katie. We ask you to spell your name. If you have handouts, we need at least eight copies. And if you do not choose to testify, you're also welcome to utilize the white sign-in sheets at each entrance where you can leave your name and pertinent information. With that, I would like to indicate to the committee, before we get started, that we will try and have all of our hearings out of the way by the end of February. And we will have two, possibly three hearings later in the day. There's three bills that might be a little bit contentious, and so I feel it's only fair to give everybody a fair hearing and rather than try and push it into an hour and not give them the fair opportunity to speak would be inappropriate. And so I'm working with...two of us are on Appropriations, two of us are on Education, two of us are on Banking and Insurance, and so we've got to coordinate those schedules. I appreciate the committee chairs working with me on that and we'll continue to work at that. We should have a schedule out for all the hearings by the end of the week or first part of next week. Appreciate your help on all that. At this time, since I'm introducing the bills, I'm going to turn it over to Senator Lindstrom and he can run the hearing.

SENATOR LINDSTROM: Welcome, Senator Kolterman. [LB29]

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SENATOR KOLTERMAN: Thank you. [LB29]

SENATOR LINDSTROM: You may open on LB29. [LB29]

SENATOR KOLTERMAN: Good afternoon. My name is Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n, I represent Legislative District 24 and I'm here today to introduce LB29. LB29 is truly a cleanup bill. Last year when LB447 was passed to transfer the investment authority from the Classified School Employees Retirement Plan, also known as OSERS, to the Nebraska Investment Council, a cash fund was set up to accept funds from OSERS for costs, fees, and expenses, incurred by the council related to the investment and reinvestment of OSERS's assets. During the interim, it was determined that an existing cash fund is being used for this purpose so the new cash fund is unnecessary. LB29 simply eliminates the cash fund. I believe Michael Walden-Newman will address you. If you have any questions, I'd be glad to entertain those at this time. [LB29]

SENATOR LINDSTROM: Thank you, Senator Kolterman. Any questions from the committee? Seeing none, we will now have proponents. Welcome. [LB29]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, members of the committee, my name is Michael Walden-Newman, that's M-i-c-h-a-e-l, last name, W-a-l-d-e-n, hyphen, N-e-w-m-a-n. I'm the state investment officer with the Nebraska Investment Council. Two years ago when we started the process of drafting legislation to affect the transition of the assets from the Omaha school district retirement system to the Investment Council, we spent several weeks putting the legislation together. And as you know, that legislation sat for an additional year before being enacted last session by the Legislature. And in that...in the initial drafting and our review prior to submitting it last year, we thought we had everything covered and all the tools we were going to need to make a smooth transition of management of those assets. It turns out we had one piece of equipment we didn't need and that was the cash fund that this bill will eliminate. So we promised at the time to come back if we found something in addition we need, an additional tool, but also feel a responsibility to bring back to you something that actually we don't need to try to keep the statutes clean. I'd be happy to answer any questions. I'd end by saying, committee members, and I think I've let you know this before that that transition did happen as promised on January 1. You all have a copy, I believe, of the closing statement from director of Omaha's retirement system and me and we are now treating those assets as we do the rest of the portfolio with utmost care. So thank you for your support during the transition. [LB29]

SENATOR LINDSTROM: Thank you, Mr. Walden-Newman. Any questions from the committee? Seeing none, thank you very much. [LB29]

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MICHAEL WALDEN-NEWMAN: Thank you. [LB29]

SENATOR LINDSTROM: (Exhibit 1) Any other proponents? Seeing none, any opponents? Seeing none, any neutral? I do have neutral testimony from Cecelia Carter, executive director of the Class V School Employees' Retirement System. Senator Kolterman, would you like to close? Senator Kolterman waives closing and that will end the hearing on LB29. We will now move on to LB94. Senator Kolterman. [LB29]

SENATOR KOLTERMAN: Thank you, Senator Lindstrom. Good afternoon. Again, my name is Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n. I represent Legislative District 24 and I'm here today to introduce LB94. LB94 increases from \$6 million to \$16 million the maximum amount of time deposit accounts made available to banks, capital stock financial institutions, and qualifying mutual financial institutions willing to meet the rate and other requirements of the Nebraska Capital Expansion Act. The Nebraska Capital Expansion Act was adopted in 1978 and was designed to provide additional capital to financial institutions to help meet agricultural and housing credit needs. Currently under the act, banks, capital stock financial institutions, and qualifying mutual financial institutions are eligible to obtain time deposit open accounts in the amount of \$1 million from funds available for investment by the state investment officer, provided they meet the rate and other requirements established by the act. If the total amount of funds initially offered to all the eligible institutions is not accepted, the balance of funds are immediately reoffered to institutions desiring additional funds in an amount not to exceed each institution's pro-rata share of the remaining funds or \$5 million for each institution, whichever is less. When the maximum amount of time deposit open accounts available to banks was increased in 2014 from \$1 million to \$6 million, approximately one-third of the banks in Nebraska were participating and were accessing approximately \$33 million in the aggregate. The 2016 end-of-year report on the time deposit open account program reflects that approximately one-third of the banks in Nebraska were participating in the program, with just under \$41 million in deposits being accepted, and one bank taking advantage of the maximum \$6 million allotment. The Nebraska Bankers Association asked me to carry this bill indicating the banks have approached them and would like the opportunity to be able to bid for additional deposits. While bank participation in the Nebraska Capital Expansion Act ebbs and flows depending on the economy and interest rates, when loan demand is strong, banks are looking for additional sources of liquidity to continue to satisfy the loan demand in their communities. Providing additional access to time deposit open accounts in the amount proposed under LB94 will assist banks seeking additional liquidity for lending purposes. I'd be glad to answer any questions. Michael Walden-Newman, the state investment officer, is also here to testify on the bill. This is the same bill that was brought last year. It was advanced to the floor, but it didn't get heard. So that's where we're at. [LB94]

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SENATOR LINDSTROM: Thank you, Senator Kolterman. Any questions from the committee? (Inaudible). Senator Groene. [LB94]

SENATOR GROENE: Maybe I missed it, excuse me, Vice Chair, thank you. What's the max...is there a limit that will... [LB94]

SENATOR KOLTERMAN: Right now it's up to \$6 million. [LB94]

SENATOR GROENE: No, I mean total, that we're willing to put in these banks? Up to \$41 million or is it a billion? [LB94]

SENATOR KOLTERMAN: I can't answer that. I'll have people coming behind me answer that. Bob Hallstrom can tell you. [LB94]

SENATOR GROENE: All right, thank you. [LB94]

SENATOR LINDSTROM: Thank you. We'll now have proponents. [LB94]

ROBERT J. HALLSTROM: (Exhibit 1) Vice Chairman Lindstrom, members of the committee, my name is Robert J. Hallstrom, H-a-l-l-s-t-r-o-m and I appear before you today as registered lobbyist on behalf of the Nebraska Bankers Association, excuse me, in support of LB94. Senator Kolterman has addressed most of the substance of my written testimony, so I will just wing it in terms of giving you some additional background information. The Nebraska Capital Expansion Act was adopted back in the last '70s. The design of the program was to provide an additional source of funds to local lenders to provide benefits to their local community and meet borrowing needs. And I think the program, historically, has been successful in that particular regard. We have been before the Legislature to increase the amount that is guaranteed to be offered to banks willing to meet the formula rate that's computed under statute and regulation of the Investment Council. I think the initial maximum was at \$100,000. We moved it to \$300,000 in step two. And then, ultimately, a number of years ago, to offer a million dollars. Senator Groene, in response to your question, doing the math, each bank is guaranteed to have access, if they so desire and can meet the interest rate requirement, to get a million dollars. There's roughly a 190 banks in Nebraska today, so let's just round it up, including savings and loans, there's \$200 million that's available. I think our position would be, we'd like to see all of that \$200 million available and able to be utilized if banks wanted to step up. They, obviously, are in the \$40 million range, but there are a few banks that have utilized the program and who have maxed out on a regular basis that would like to see that \$6 million raised. And in this bill we would raise it up to \$16 million that they could have access to. The NebraskaLand Bank out in your district, Senator Groene, is

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not currently maxing out, but they have, over the past year or two, at the \$6 million figure. And we do have a handful of banks that do take more than the million dollars that they're all allowed to access. We have fairly consistently throughout the program, and I think Michael will come up later and maybe have some charts and graphs to show you. But we have consistently had about a third of the banks that have participated. That numerator is reducing as banks are merged and acquired, but still about a third of the banks and the dollar volume, I think, has stayed steady comparatively when you talk about a reducing number of banks that are eligible for participation. So with that, we would simply encourage the committee to advance this bill to the floor of the Legislature for further consideration. I'd be happy to answer any questions that the committee might have. [LB94]

SENATOR LINDSTROM: Thank you, Mr. Hallstrom. Senator Groene. [LB94]

SENATOR GROENE: Thank you, Vice Chair. I didn't read it real close, but the \$16 million has to be based on the ability of the bank to carrying that many assets, right? [LB94]

ROBERT J. HALLSTROM: Correct. [LB94]

SENATOR GROENE: And you're saying most of the...how many banks are capable in the state of Nebraska that take on the \$16 million? [LB94]

ROBERT J. HALLSTROM: I don't think there would be any problem. Last year when we introduced this bill, one of the aspects that we had considered, Senator, was allowing the banks to come in and take as much as was left over which could have been much more than \$16 million. The Department of Banking, at that time, didn't really render an opinion, but we had asked them that very question of whether or not there would be any concern if we were to go to the \$16 million figure. And we did not have any adverse reaction from the department in terms of concerns with capital. [LB94]

SENATOR GROENE: So, the way you read this, it's capped at \$200 million? [LB94]

ROBERT J. HALLSTROM: It's a million dollars for each eligible institution. So as that number goes down, the total that's available, obviously, will go down as well. But what we're looking at is, after you make the first go-round of every bank being offered a million dollars worth of funds, some will take it, some will take less than a million, some will decide not to participate. But once you've decided, for example, there's \$35 million from the banks that decided to participate, then it is technically reoffered. And if a bank then comes in and says I'll take another million... [LB94]

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SENATOR GROENE: I guess my point was, Mr. Walden(-Newman) then knows that he's got to keep available \$200 million for this program. [LB94]

ROBERT J. HALLSTROM: Yes. [LB94]

SENATOR GROENE: He can't be hit with all of a sudden he has to sell stocks or something to get to (inaudible). [LB94]

ROBERT J. HALLSTROM: No. I think he can speak to it. I assume he keeps that full amount available until after that second reoffering is opened and closed and he knows exactly how much is going to be asked. [LB94]

SENATOR GROENE: It's \$200 million. All right, thanks. [LB94]

SENATOR LINDSTROM: Thank you. Any other questions? Seeing none, thank you. [LB94]

ROBERT J. HALLSTROM: Thank you, Senator. [LB94]

SENATOR LINDSTROM: (Exhibit 2) Other proponents? We do have a letter from Mr. Stephen Postier with Henderson State Bank as a proponent. Any opponents? Seeing none, any neutral? [LB94]

MICHAEL WALDEN-NEWMAN: (Exhibit 3) Mr. Chairman, committee members, my name is Michael Walden-Newman. I'm the state investment officer with the Nebraska Investment Council. That's M-i-c-h-a-e-l, last name, W-a-l-d-e-n hyphen N-e-w-m-a-n. Mr. Chairman and committee members, I have updated an information sheet for you that I prepared last year when similar legislation came before the Unicameral and it's strictly to give you as much information as I would think you'd need quickly to understand the program, the number or participants, and happy to answer any questions you might have. [LB94]

SENATOR LINDSTROM: Thank you very much. Any questions from the committee? Seeing none. [LB94]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, how about if I answer Senator Groene's question, just to elaborate a little bit more. [LB94]

SENATOR LINDSTROM: Sure, thank you. [LB94]

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MICHAEL WALDEN-NEWMAN: The money available for this program is invested in what we call the "Operating Investment Pool," essentially, the state's checkbook. The OIP is managed in-house by the Investment Council and it's about \$4 billion of the \$23 billion we have under management. And of that, about 15 percent is kept in short-term cash, if you will, less than a year. So that's a sizable amount of money and we keep it that way to be able to pay state bills and also available for a program like this. The rest of the OIP, as we call it, can be invested out under our guidelines as much as ten years in 10-year bonds. So the rate for the OIP is determined on that shorter term one-year pool. [LB94]

SENATOR LINDSTROM: Senator Groene. [LB94]

SENATOR GROENE: Thank you, Mr. Vice Chair. So you're telling me all the retirement money is mingled with the state money? [LB94]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, no, the OIP is a separate portfolio that we manage at the Investment Council. And it's \$4 billion. I call it the state's checkbook. It is all of the money of all state agencies in Nebraska and including the "Rainy Day Fund," it's all part of that OIP. And it has its own unique investment policy, investment guidelines, and investments. [LB94]

SENATOR GROENE: So this money isn't retirement money? [LB94]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, that's correct. [LB94]

SENATOR GROENE: And we handle it here in this committee? [LB94]

MICHAEL WALDEN-NEWMAN: Yes. [LB94]

SENATOR LINDSTROM: I do have one question. What portion, as far as the investment policy, on the fixed income side, how far on the range can you go and how low can you go within the agreement? [LB94]

MICHAEL WALDEN-NEWMAN: Right, Mr. Chairman, that's a good question on the...again, it's split 85/15 between short-term cash and what I call longer-term cash. The longer-term cash, actually, is a bond portfolio that can be out as long as ten years. [LB94]

SENATOR LINDSTROM: Okay. And that's the (inaudible). [LB94]

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MICHAEL WALDEN-NEWMAN: Shorter and the...correct, that's the bulk of the money.
[LB94]

SENATOR LINDSTROM: Okay. And then of that, say, 100 percent of the fixed income with the equities and the fixed income, what's the range of that within there? Or is it just specifically cash so you have available (inaudible). [LB94]

MICHAEL WALDEN-NEWMAN: Right. Mr. Chairman, the operating investment pool holds no equity. It is only short-term and, as I say, longer-term cash or a shorter-term bond portfolio.
[LB94]

SENATOR LINDSTROM: Sure. Cash instruments, great. [LB94]

MICHAEL WALDEN-NEWMAN: Yep. That's what we need to send to pay the bills. [LB94]

SENATOR LINDSTROM: Sure. No risk, right? Senator Groene. [LB94]

SENATOR GROENE: So where is that amount of money...if our local banks can't handle that much, where is that deposited? [LB94]

MICHAEL WALDEN-NEWMAN: The money is held with our custodial bank. [LB94]

SENATOR GROENE: Which is? [LB94]

MICHAEL WALDEN-NEWMAN: Our custodial bank is State Street, the headquarters are in Boston, Massachusetts. [LB94]

SENATOR GROENE: And they pay interest on the money-market or whatever you would call the (inaudible). [LB94]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, that's correct. [LB94]

SENATOR GROENE: Thank you. [LB94]

MICHAEL WALDEN-NEWMAN: Yep. [LB94]

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SENATOR LINDSTROM: Thank you. Any other questions? Seeing none, thank you very much. [LB94]

MICHAEL WALDEN-NEWMAN: Thank you all. [LB94]

SENATOR LINDSTROM: Any other neutral testimony? Seeing none, Senator Kolterman, would you like to close? Senator Kolterman waives closing and that will end the hearing on LB94. Thank you very much. [LB94]