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Nebraska Retirement Systems Committee
February 21, 2017

[LB412]

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 LB412. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; and John Stinner. Senators absent: Mike Groene; Rick Kolowski.

SENATOR KOLTERMAN: (Recorder malfunction)...start with some of the preliminary information. Right now we're waiting on a quorum. I believe that Senator Stinner will be here. Senator Kolowski and Senator Groene have asked to be excused. They're...one is out of town and the other one is in a meeting. Welcome to the Retirement Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent District 24, which is Seward, York, and Polk Counties. On my immediate right is...

SENATOR BOLZ: Senator Kate Bolz, District 29.

SENATOR KOLTERMAN: And left...

SENATOR LINDSTROM: Senator Brett Lindstrom, District 18, northwest Omaha.

SENATOR KOLTERMAN: (Exhibits 11-20) As I said, Senator Stinner will be coming in shortly. My staff legal counsel is, to my left, Kate Allen, and my committee clerk is Katie Quintero. Our page is Bobby, been with us all year, doing a fantastic job. We're here today for a hearing on LB412. We have a lot of interest in this bill and, unfortunately, we don't have a lot of time so I will tell you that we have written testimony that we've already got submitted and I'll read that into the record now while we're waiting on Senator Stinner. Proponents are in written form: Tim Fickenscher; Jay Schmidt; Nancy Meyer; Eve Hulvershorn; Kathryn Berndt; Moni Usasz; Sally Herrin; and Sheila Schrader. Opponents are: Jim Fehringer. And neutral testimony is from: Nathan Leach. Those are the ones thus far. They will be submitted and put into the permanent record for the committee. Now we've had Senator Stinner join us. He's from Gering, District 48, which is what area? [LB412]

SENATOR STINNER: Scotts Bluff County. [LB412]

SENATOR KOLTERMAN: Scotts Bluff County. We're here today for LB412. I don't believe anybody is going to be coming and going because if they do we're in trouble. To better facilitate the proceedings I would ask you to follow the following procedures. Please silence and turn off your cell phones. Those wishing to testify should come to the front so that we can move this in a

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fairly sufficient manner. If somebody has given the same testimony that you're about to give, we don't need to be super redundant. You could send it in writing as well. It's not that I don't want to give you ample time. The problem we have is this committee only meets over the noon hours generally. So please complete a blue sign-in sheet and hand it to the clerk before you testify. Please state and spell your name. We will be using the lights and everybody will have a three-minute time frame. I'd like to get as many people in as possible, in fairness to both sides. With that, I just am curious, how many are here in support of the bill that will testify? So we have...that will be giving verbal testimony? Okay. And how many opposed with verbal testimony? Okay. So I think we could get that accomplished today. I appreciate your willingness to work with us on that. With that, Senator Bolz, would you please open on your bill, LB412? And there will be, as I said, there will be a light system. It will be for three minutes. That doesn't pertain to Senator Bolz, so. [LB412]

SENATOR BOLZ: (Exhibits 1 and 2) Well, good afternoon, members of the Revenue (sic) Committee...the illustrious Revenue Committee...Retirement Committee. I'm Kate Bolz... [LB412]

SENATOR KOLTERMAN: We got a promotion. [LB412]

SENATOR BOLZ: My name is Kate Bolz, K-a-t-e...you give us four days off, we get rusty. My name is Kate Bolz, that's K-a-t-e B-o-l-z. I represent District 29 and I live in south Lincoln. I'm here today to introduce LB412. I believe that it is both important to be a good steward of the environment and it's important to this committee to understand how the state invests in energy sources, both conventional fossil fuels and clean energy investments. This bill requires that the State Investment Officer examine all of the major investments made by the state to get the Legislature, in general, and this committee, in particular, a more in-depth understanding of where the state invests in energy and a deeper understanding of how volatile fossil fuel energy resources can be and if or how clean energy may be better. The bill also begins the process for investing in clean energy when that is a wise financial investment to make. The state has significant investments and its investments make a moral statement as well as a financial one. I believe it is important that our investments are sound financial decisions, but I also believe that we should do what we can in a real and tangible way to make steps to address some of the great concerns of our world, including climate change. I want to make clear what this bill does and what it does not do. It does require a State Investment Council to create a report for the Legislature so that we can have a clear picture of where Nebraska invests. It also states that we would like to see clean energy investments when that is a prudent financial investment. I view this as something like, all other things being equal, we should include green investment. This bill does not require that the state sell any current investment or stop the state from making wise financial investments in any energy sector. I hope that the final report will speak for itself and that it will inform the Investment Council and the committee and future legislative action as to

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how the state can both make wise investments while serving as a good steward of the environment. My office has been in contact with the State Investment Officer with the Nebraska Investment Council. It's my understanding that they'll be testifying in a neutral capacity today and have no objection to the request for a report similar to the one required under the bill. You've seen that there are several others who have something to say about this bill, so I'll leave it there and answer any questions you might have. [LB412]

SENATOR KOLTERMAN: Are there any questions for Senator Bolz? Seeing none, first testifier in support. Thank you, Senator. [LB412]

JOHN ATKEISON: Good afternoon. My name is J-o-h-n A-t-k-e-i-s-o-n, representing Energyline. There are several things to put this bill in context that I think are not widely known and I'll just mention these, because I think much of the rest of the material will be covered and I don't want to duplicate and take extra time. One thing is that folks may not realize that solar power, photovoltaics, electricity from the sun, the price has been crashing for a long time and it doesn't seem to be slowing down. I don't know how close to zero it can get, but it's making me nervous. Although it would be nice to have some energy source that actually was too cheap to meter, which is what they used to say about nuclear. And now solar is at price parity with nuclear power in an electricity market that is low in price in general. And, in fact, that's why the Fort Calhoun nuclear plant had to be closed; it just was not competitive. It's a small plant, an old plant, etcetera. But solar is now at that level. It is a real player on price points in the electricity market. So I have no doubt that you'll be able to find good figures and good investments in the solar market. And this is pretty new, this is within the last six, eight months, really, for Nebraska. Worldwide it's been that way for a while, and where electricity prices are higher it's certainly been that way for a while. One of the things that we're having for context on this bill is the issue of climate change. We got a preview of climate change on the year 2012. In fact, the authoritative report on climate change in Nebraska is the 2012 report from UNL, "Understanding Climate Change Implications for Nebraska," and it is a remarkable report. We have a report specifically for us, unlike most states, and they project that by mid-century, unless we change something awful fast in terms of eliminating the cause of global warming, that we will be like 2012 typically in the summer by mid-century. So just wanted to give you those two points and appreciate your time. Thank you. Any questions, I'll be happy to answer. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Atkeison. Any questions? Thank you very much. [LB412]

JOHN ATKEISON: Thank you. [LB412]

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KEN WINSTON: That wasn't exactly graceful, but hopefully my testimony will be better, so. [LB412]

SENATOR KOLTERMAN: Good afternoon. [LB412]

KEN WINSTON: (Exhibit 3) Good afternoon, Chairman Kolterman and members of the Retirement Committee. My name is Ken Winston, K-e-n W-i-n-s-t-o-n, appearing on behalf of The Bold Alliance in support of LB412. The Bold Alliance supports LB412 as basically a common-sense examination of investment policies that have the potential to improve Nebraska's investment portfolio while providing economic benefits to the people of our state. The following are reasons for our support: Bold supports both renewable energy and investment in Nebraska. LB412 provides a mechanism for determining the benefits of both. Nebraska already receives great benefit from renewable energy, including approximately \$7 million in property taxes and \$6.5 million in annual landowner lease payments. At a time when the state is experiencing a revenue shortfall, it makes sense to use the state's investment portfolio to help grow Nebraska through supporting homegrown energy. We have great potential for renewable energy investment. Although we had 1300 megawatts by the end of 2016 of wind energy, Iowa, our neighbor to the east, had more than 6000 megawatts. And so...and we have much better wind potential than Iowa does. And similarly, we had 6 megawatts of solar energy, but that's just tapping the surface of our potential and there's great interest in that. Then there's also a number of other benefits from renewable energy. A lot of companies are looking to renewable energy...to places that have renewable energy in determining where they locate their facilities. For example, Facebook and Google and Microsoft all located datacenters in Iowa because of the fact they had large renewable portfolios. One other thing that's often overlooked is the fact that renewable energy often can result in lower utility bills. And once again, I'm going to use the Iowa example. Iowa, in general, has lower residential utility rates, electric rates than Nebraska does, while having a much higher renewable portfolio. So the more that we can encourage something that benefits the state of Nebraska, that benefits its residents, I think we should do that. Then finally just the fact that renewable energy provides the potential of providing jobs and economic benefits in rural areas. And as anyone who has been to rural Nebraska recently knows, there's a lot of places in rural Nebraska where populations are declining, where we're dealing with aging populations, where tax revenues are declining, and this could provide an opportunity to revitalize those areas. We would ask that LB412 be advanced. Thank you. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Winston. Any questions? Thank you very much. [LB412]

KEN WINSTON: Thank you. [LB412]

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SENATOR KOLTERMAN: Welcome, Mr. Cavanaugh. [LB412]

JAMES CAVANAUGH: (Exhibit 4) Chairman Kolterman, members of the Retirement Committee, my name is James Cavanaugh, I'm counsel and registered lobbyist for the Nebraska Chapter of the Sierra Club. I appear today before you in favor of LB412. And we wish to thank Senator Bolz for recognizing the importance of examining investment policies for the benefit of the state of Nebraska and its citizens. Having been before this committee on this identical issue previously and having worked in the past on bills of the same subject matter, I'd just like to point out three significant facts that kind of stand as a little bit of precedent for going down the path that we're talking about, at least beginning today. LB412 doesn't ask you to do anything more than to look at our portfolio. But three times in recent history we have done this and concluded that it might be of benefit to us to divest from certain investments. And you'll see those outlined here in the letter I've submitted. One of those times, the one that involved divestment from investments in Northern Ireland, I personally participated in the drafting and helped advocate for the passage of that. And all three had good effects relative to the outcomes that they sought and good effects on the investment portfolio returns of the funds that we invest as a state. So what we ask you to do today is, just let's take a look at this. We don't have to do any divestment decision based on this bill, but take a look at this from the point of view of how the future of the energy market is going to go in the United States. And I don't think any of us have to claim to have the foresight of Warren Buffett to see that the energy market is moving away from fossil fuels and moving towards renewable energy sources. Those are seen as good investments. They're seen as good investments by everybody, including fossil fuel companies like ExxonMobil, who are now pursuing and have established their own divisions to pursue the marketing of renewable energy sources. So what we would ask you to do is, take a prudent look at our investment portfolio and look towards the future, because as the twenty-first century progresses we think that it's inevitable that renewable energy sources are going to become the main energy sources for the United States, if not the world. That's all we're asking you to do today. And we ask that the committee advance LB412 to General File for debate by the entire Legislature. I'd be happy to answer any questions you would have. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Cavanaugh. Any questions? Thank you. [LB412]

JAMES CAVANAUGH: Thank you, sir. [LB412]

JUDY KING: I'm scared to death. It's only my second time doing this. [LB412]

SENATOR KOLTERMAN: Just relax, we won't bite. [LB412]

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JUDY KING: You've been very kind to me in the past, so. My name is Judy King and I'm here as a private individual. And I am here to testify in support of LB412. [LB412]

SENATOR KOLTERMAN: Katie, could you reset the lights, please? Go ahead, Mrs. King. [LB412]

JUDY KING: First, I believe in science and renewable energy. I've taken part in federal and state and city programs to save energy and water and to lower energy bills for my home. It has been such a benefit to me and has also created jobs for people that have worked on my home. It's exciting for me to see the city and state moving toward alternate forms of renewable energy, water conservation, and waste management that will help the environment for my children and grandchildren. When I was made aware of an oil company from a foreign country trying to run a pipeline through my state, risking our clean water and taking away farmers' and ranchers' lands through eminent domain, I became concerned. We don't even know if the oil from Canada will stay in the country. The potential threat to the aquifer and the impact on Nebraska citizens is too great. I've sold my stock in oil and gas and have stopped buying mutual funds that contain oil and gas stock. And I know that several politicians have taken donations from oil and gas companies and believe that they have not had the best interests of their states and of this country in mind when doing so. That is why I believe in shifting state investments in fossil fuels to a more socially responsible investment, such as renewable energy. This is a much more socially responsible action that will have long-term, positive consequences, ranging from jobs to protecting Nebraska's water resources. I ask that the state of Nebraska divest itself from any use of any funds that contain fossil fuels. Thank you. [LB412]

SENATOR KOLTERMAN: Thank you. Any questions? Appreciate it. [LB412]

JUDY KING: Thank you. [LB412]

SENATOR KOLTERMAN: Good afternoon. [LB412]

CAROL WINDRUM: (Exhibit 5) Good afternoon. My name is Carol Windrum, C-a-r-o-l W-i-n-d-r-u-m. I live at 3735 North 39th Street, Omaha, Nebraska. I'm a United Methodist clergy person and I'm here today representing Nebraska Interfaith Power and Light. My husband and I made our first 2017 kayak excursion last week at Glenn Cunningham Lake. It was a beautiful warm day, a sailboat slipped across the water and I had to stay alert for fishing lines cast from the shore. It was a glorious day...for maybe June. Today is another day with temperatures more suited to early summer. So what's wrong with this picture? As you are aware, the UNL report on climate assessment projects that by 2100 Nebraskans are expected to experience drier summers, higher overall temperatures, warmer nights year-round, and two more weeks of the frost-free

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season. I support and Interfaith Power and Light supports LB412 because it's prudent for our state to take stock of investments in fossil fuels which are warming our climate at an unprecedented pace. We need a study to determine how much we have invested in fossil fuels and how much in renewable energy. Since I'm here in the context of the faith community, I will share. In one of the creation stories in Genesis, we are told that God put humans in the Garden of Eden to work it and keep it. The Hebrew word "shamar"--tend or keep--means to guard, watch, or protect, not so much the narrow definition of dominion or subduing that we often used to justify exploiting the earth with little thought of care or stewardship. Continuing to invest in fossil fuels is a disconnect with our role as protectors of creation. Proverbs 27:12 reads, "The prudent see danger and take refuge, but the simple keep going and pay the penalty." There are many signs of danger that our climate is warming at an accelerated speed and we cannot continue to ignore this and simply keep going as we have in the past. The penalty will be too great for our children and generations to come. So now is the time to take stock of our investments and to move to a portfolio that reflects not only financial yields but also, more importantly, yields of a sustainable planet. Thank you. [LB412]

SENATOR KOLTERMAN: Thank you. Any questions? Okay. Good afternoon. [LB412]

ALEX HOUCHIN: Speaking of a faith-based community, Chairman, I believe my grandparents go to your church, Dr. and Mrs. Everts. [LB412]

SENATOR KOLTERMAN: Carl Everts? [LB412]

ALEX HOUCHIN: Yeah. He's a great man. [LB412]

SENATOR KOLTERMAN: Welcome. [LB412]

ALEX HOUCHIN: (Exhibit 6) All right. Good afternoon, Chairman Kolterman and Senators of the Retirement Systems Committee. My name is Alex Houchin, A-l-e-x H-o-u-c-h-i-n, and I would like to thank you for your service in the state Legislature. I speak today in strong support of Senator Bolz's bill, LB412. I'm sure everyone here has heard the phrase "money talks" before, but let's just ponder how much depth and potential that phrase holds. Money really does talk. Every dollar we spend on goods and services is its own little statement. If we remain conscious of this fact, we can make these statements in ethical ways. On an individual or a family level, this means we can choose a local restaurant over a national chain, we can buy local produce instead of food shipped from other time zones, and we can shop at retail stores known for treating its employees well. On a collective scale, this also means we can make our money talk for us by divesting state funds from industries that pollute our air and water and cook our climate. Our world is beautiful and diverse and full of wonder, and we do ourselves and our

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descendants a grave injustice when we neglect our obligation to good stewardship of this gift. There's no single thing we can do to correct this course, no one bill we can pass, but every step in the right direction is one we should take. By asking our money to speak for us, LB412 is one such step. It's also good economic sense, as the fossil fuel industry is getting to be rather long in the tooth. Hydraulic fracturing and tar sands extraction are costly and offer very little return on investment. And they also come with huge liabilities: aquifer pollution; runaway greenhouse gas emissions; and ecological devastation. It's just not worth it anymore. On the other hand, the clean energy sector has shown strong growth for years. Around 70 percent of all new energy to come on-line in recent years has been from solar and wind installations. Clean energy job growth has outpaced fossil fuels by about three to one. As the cost of industrial-scale wind and solar installations continues to fall, new development will grow exponentially. We have a duty to make sure our state's retirement pensions are safe and solvent for many years to come, and this is a great way to fulfill that duty. You can like this bill because it is economically prudent and fiscally responsible, you can like this bill because it lets our money talk in an ethical manner that promotes stewardship of our beautiful shared home, or like me you can love it because it manages to do both at the same time. Please support LB412. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Houchin. Any questions? Appreciate it. [LB412]

ALEX HOUCHIN: Thank you very much. [LB412]

SENATOR KOLTERMAN: To all of you, I appreciate you taking the time out today to come. Okay, how many more do we have in support that want to give...two more? I think it'll work out just right. [LB412]

MARILYN McNABB: (Exhibit 7) Mr. Chairman, thank you for having this hearing today. I appreciate your attention. And members of the committee and legal counsel, my name is Marilyn McNabb. I'm testifying as an individual. It's M-a-r-i-l-y-n M-c-N-a-b-b, I'm at 1701 West Rose Street. I wanted to talk about the dramatic changes in the energy industry. Just today's Public Power (Daily), which is the publication of Public Power (Daily), nationally published new numbers for solar. Solar installations for 2016 represent a 95 percent increase over 2015 and 2015 broke records. "For the first time ever, U.S. solar ranked as the number one source of new electric generating capacity. Its growth rate, the highest of any segment, was 145 percent. According to an annual report on renewables published by the federal Department of Energy last September, wind and solar accounted for two-thirds of all new electricity generating capacity installed in the U.S. in 2015. From 2008 to 2015, wind capacity tripled. The expansion of solar and wind was largely due to declining costs. From 2008 to 2015, DOE said the cost of land-based wind declined by 41 percent; utility-scale solar declined by 64 percent; batteries declined by 73 percent; sales of electric vehicles by last August were close to half a million. Worldwide

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debt instruments used for projects involving renewable energy, energy efficiency, clean transportation, and those encouraging a low-carbon economy rose 120 percent in 2016 to \$93 billion and according to Moody's, could double that amount in 2017. In a survey of low carbon investments, Thomas Van Dyck, the managing director of an investment group said, you can't put the genie back in the bottle when it comes to the economics driving solar, wind, and battery storage. If you're a long-term investor and looking out five to ten years, it's a no-brainer. It's like looking at Intel or Microsoft in the 1990s. They had some cyclical issues, but look at them today. This January, Deutsche Bank, one of the world's leading banks, announced plans to stop investments in all new coal financing and to scale back existing exposure. A few weeks before, China announced the suspension of 104 coal power projects that were under construction or planned. A year ago, The New York Times reported J.P. Morgan announced, "it would no longer finance new coal-fired plants in the United States or other wealthy nations. The retreat follows similar announcements by the Bank of America, Citigroup, and Morgan Stanley that they are, in one way or another, backing away from coal. While coal has been declining over the last several years...". The account quotes a mining specialist at Standard and Poor's saying, "There are always going to be periods of boom and bust. But what is happening in coal is a downward shift that is permanent." That's a lot of change very fast. It's my hope the Retirement Committee will direct the State Investment Officer to determine what the state's holdings are in fossil fuels and clean energy, to report on risk, and to begin the process of clean energy investment to the extent it is consistent with prudent investment strategies as LB412 directs. Questions? [LB412]

SENATOR KOLTERMAN: Thank you, Ms. McNabb. [LB412]

MARILYN McNABB: Thank you. [LB412]

SENATOR KOLTERMAN: I really appreciate you footnoting everything. A lot of information there. [LB412]

MARILYN McNABB: I'm a big enthusiast of footnotes. [LB412]

SENATOR KOLTERMAN: Thank you. [LB412]

MARILYN McNABB: They're good for facts. [LB412]

ETHAN MUNSON: Hello, my name is Ethan Alexander Munson. I come mostly supporting myself...representing myself, supporting everyone. But I am a graduate student and instructor at UNL in the English Department and have recently been trying my best to represent the movement up in Standing Rock as to stop the DAPL pipeline. [LB412]

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SENATOR KOLTERMAN: Could you spell your name, please, for the record? [LB412]

ETHAN MUNSON: It's...excuse me, it's E-t-h-a-n A-l-e-x-a-n-d-e-r M-u-n-s-o-n. [LB412]

SENATOR KOLTERMAN: Thank you. [LB412]

ETHAN MUNSON: And forgive me if I'm shaky. This is the first time I've spoken. But really, I don't need to reiterate anything that's been said about how smart it is for us to move towards these renewable energies, such as solar. They are providing more jobs. Pipelines provide temporary jobs for a short period of time and then all they need...require a few people to maintain them at that point. And it's actually very risky at that point that we have so few employed to oversee these pipelines when there are so many hazards we have seen over the course of the last few years, especially, of these pipelines breaking. So I don't really speak so much for how we need to move towards solar energy; I think that's obvious. I'm speaking on how much we need to move away from oil, fossil fuels. As I've been traveling up to North Dakota to be at Standing Rock and have spoken to the people in the area where these pipelines have already burst and you drink the water and it's thicker than your coffee, it's very disheartening to realize that as Keystone XL and these pipelines are going through the Missouri River, which runs through of course Omaha, Iowa, all these areas that do of course affect us. Nebraska is a beautiful haven. I love it. I come from the western...upper northwestern corner, as far away as you can get from Lincoln and still be in Nebraska, where those ranchers, those small communities are depleting. They're dying because...cattle...the cattle market requires water and so, of course, as water becomes more valuable and more scarce, the cattle market is going to deplete and those communities are dying. And we would much appreciate to use that open land for solar energy, for jobs, jobs to sustain. Really, I just come to you with passion, knowing that this is the way we need to move, the direction we need to move. Solar energy just makes sense. It's renewable. It's not going to kill our environment. Even in...just as long as the risk is there, why even take it? Water is life. My father, a man of few words, the only thing he ever told me is: Make sure that the water source is maintained, safe, and everything else will flow from there. So it just makes sense that in not only making the most financially smart, economical decision, just fossil fuels are not it. Thank you very much for your ear and thank you much for your time. [LB412]

SENATOR KOLTERMAN: Thank you. Okay, last one to testify in support. [LB412]

STEPHANIE MEYER: Sorry, I snuck in. Hi, there. My name is Stephanie Meyer, that's S-t-e-p-h-a-n-i-e M-e-y-e-r. There have been a lot of really nice things already spoken about, so I'll just share a memory from last year. That was a bill, LB473, that was introduced to eliminate the power of eminent domain for major pipelines. That bill was killed and opponents argued that

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fossil fuels are the bloodline of our entire society. We were told that that's the only way we can fuel our cars, how we turn on our lights, and cook and grow our food. This offers us options. We do not need to be attached to questionable oil production companies, such as the Keystone pipeline. If we support this bill we will become a cleaner and more energy independent state if we do so. Thank you. [LB412]

SENATOR KOLTERMAN: Thank you. We'll take one more. I...this is the last in support. [LB412]

SANDRA CARPENTER: This is short. [LB412]

SENATOR KOLTERMAN: That's fine, take your time. [LB412]

SANDRA CARPENTER: Hi. I can't believe I'm doing this. I never thought I'd ever do anything like this. [LB412]

SENATOR KOLTERMAN: Neither did we. [LB412]

SANDRA CARPENTER: (Exhibit 8) My name is Sandra Carpenter, S-a-n-d-r-a C-a-r-p-e-n-t-e-r, and I'm here today to support LB412. As a longtime resident of the state of Nebraska, I am concerned about how our state invests in companies and funds. In order to be more forward thinking and understanding that fossil fuels are a finite source of energy and less clean, we need to move away from investing in fossil fuels and look to investing in renewable sources of energy: wind, solar, and thermal. I look to the east and west of this beautiful state and see states that are increasingly involved in renewables. Renewable sources of energy are cleaner and have been made more cost-effective. The industry can provide jobs for people and taxable income for the state. The small plot of ground that the wind generators sit on is taxable. I know we are not debating whether Nebraska starts working with the industry to provide energy for Nebraska, but these facts are important to note when deciding the direction of our investments. Years ago in high school, I learned about the finite nature of fossil fuels. And as a teenager, it scared me to think of running out of these energy sources. But there were others with greater insight and ability who have found methods that are cleaner and sustainable. Sustainable energy sources is the future and Nebraska should look to investing in these. Thank you. [LB412]

SENATOR KOLTERMAN: Thank you. Any questions? Thank you. We'll now move into opposition. Opponents. [LB412]

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JASON HAYES: (Exhibit 9) Good afternoon, Chairman Kolterman and members of the Retirement Committee. My name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the Nebraska State Education Association. The association opposes LB412. The requirements imposed on the Investment Council in the bill are contrary to state statute requirements. Section 72-1239.01(1)(b) provides in part: As fiduciaries, the appointed members of the council and the State Investment Officer shall discharge their duties with respect to the assets of the retirement systems solely in the interests of the members and beneficiaries of the retirement systems...for the exclusive purpose of providing benefits to the members, members' beneficiaries, participants and participant beneficiaries, and defraying reasonable expenses incurred. Another section, 72-1239.01(3) further provides in part that: No assets of the retirement systems shall be invested or reinvested if the sole or primary investment objective is for economic development or social purposes or objectives. Members and beneficiaries of the School Retirement Fund that NSEA represents want the Investment Council to focus on obtaining the highest rate of return possible, while at the same time minimizing investment risk and volatility. LB412's primary objective is a social purpose, and is incongruent with state law. Although the bill only proposes a review of investments related to fossil fuels and for consideration of other alternative clean energy investments, such review would add unnecessary administrative costs to achieve a purpose that is unrelated to increasing investment returns. NSEA requests that this bill be indefinitely postponed, and I thank you for your time. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Hayes. Any questions? Appreciate your testimony. [LB412]

JASON HAYES: Thank you. [LB412]

JILL BECKER: Good afternoon, Senator Kolterman and members of the Retirement Committee. My name is Jill Becker, J-i-l-l B-e-c-k-e-r, and I am here before you today as a registered lobbyist on behalf of Black Hills Energy in opposition to LB412. I'd like to give you a little bit of background about Black Hills Energy. We started our legacy company in Deadwood, South Dakota, in 1883. We have been a public company since the 1940s. And we became listed on the New York Stock Exchange in July 1980. I bring all those items up because we are in front of the Retirement Committee and that's really what you're looking at, is investing here. We serve 1.2 million natural gas and electric customers across our eight states. We generate wholesale electricity, we produce natural gas, oil, and coal. In this state alone, in the state of Nebraska, we have 630 employees approximately, serving over 300 communities and just over 300,000 customers. We, as an energy company, are involved in fossil fuels. We are also involved in renewables. Our goal is really to serve the needs of our customers. Furthermore, we believe that we as an energy company are a great investment. You can listen to our investment calls every quarter if you wish, but you will find that many portfolios contain energy companies because they are a good, solid investment. We will continue to invest millions of dollars in our state and

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the communities that we serve, but we would ask you to please indefinitely postpone LB412. I'd be happy to answer any questions. [LB412]

SENATOR KOLTERMAN: Thank you very much. Any questions? Yes, Senator Stinner. [LB412]

SENATOR STINNER: Black Hills Energy...excuse me, I have to speak into this, otherwise they can't transcribe. Black Hills Energy, long-term strategy in deploying resources, is there more renewables in your plan? And what's that mix going to look like? [LB412]

JILL BECKER: I would say just generally, yes. A lot of our energy strategy is going to be driven by our customers and the needs that they have. And it will certainly also be dependent on the actions of a state and the resources within that state. So I would say, probably, yes. But at the same time, I think some of the hurdles that we have to get over are making sure that our customers are able to be served at all times. And right now, renewables just broadly, generally, don't give us that option of that reliability that our customers require. [LB412]

SENATOR STINNER: What's the percentage, then, of renewables in your mix? [LB412]

JILL BECKER: I could not give you that off the top of my head. I would be happy to get back with you on that. But we are involved in some renewable projects, most certainly. [LB412]

SENATOR STINNER: Okay, thank you. [LB412]

SENATOR KOLTERMAN: Any other questions? Thank you, Ms. Becker. [LB412]

JILL BECKER: Thank you. [LB412]

JOE KOHOUT: Chairman Kolterman and members of the Nebraska Retirement Systems Committee, my name is Joe Kohout. I appear today on behalf of our client and in opposition to LB412. I represent today the American Petroleum Institute. The American Petroleum Institute opposes further study of this issue based on two primary concerns with regards to the report. First, it continues to designate products like oil and gas as engaging in an unacceptable business model. The oil and gas industry is the leading investor in zero- and low-carbon technologies among all industrial sectors. And from 2000 to 2014, the oil and natural gas industry invested approximately \$90 billion in zero- and low-emissions technology, second only to the federal government at \$110 billion. One out of every six dollars invested in nonhydrocarbon energy technologies during this period came from the oil and natural gas industry. And in 2014, the oil

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and natural gas industry reduced its own omissions by 55.5 million metric tons of CO₂ equivalent, akin to taking 11.8 million cars off the road. Second, it seems to dismiss the strong historic gains that funds have enjoyed as a result of investment in the oil and gas sector. An April 2015 study from Sonecon found that returns on state pension funds from investments in oil and natural gas companies provide stronger earnings for public pension retirees than other investments. On average, \$1 dollar invested in oil and natural gas stocks in 2005 were worth \$2.30 by 2013. By contrast, \$1 dollar invested in all other assets was worth \$1.68. While oil and natural gas stocks make up on average 4 percent of holdings in the top public pension funds, they accounted for on average 8 percent of the returns in that period between 2005 and 2013. A year ago when we had a bill calling for divestment in front of this committee, I believe I referenced a Vermont state treasurer piece where she referenced divestment. I would just note for the committee that on February 9 a report from the Vermont Pension Investment Committee was published and it recommended against divestment in these areas, arguing that divestment increased costs, adds diversification risk, fails to material affect climate change, and fails to promote alternative energy technologies, that it conflicted with the Vermont Public Pension Investment Council's governance, and introduces a slippery slope of potential or for other restrictions on future investment. With that, I will end my testimony and try to answer any questions that you might have. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Kohout. [LB412]

SENATOR STINNER: I do have a question. [LB412]

SENATOR KOLTERMAN: Senator Stinner. [LB412]

SENATOR STINNER: What would incent the petroleum companies to invest \$90 billion in zero-carbon to low-carbon-type endeavors? [LB412]

JOE KOHOUT: The fact that they want to remain relevant as we move into an era where the expectation of the public is that we move to those lower carbon emissions. And so they have been a leading investor in that specific technology, because we understand that that's something that our customers desire. [LB412]

SENATOR KOLTERMAN: Any other questions? Thank you, Mr. Kohout. Any more in opposition? [LB412]

ORRON HILL: (Exhibit 10) Good afternoon, Chairperson Kolterman and Retirement Systems Committee members. My name is Orron Hill, spelled O-r-r-o-n H-i-i-l. I'm the legal counsel for

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the Public Employees Retirement Board. I am here to testify in opposition to LB412 at the PERB's direction. The Public Employees Retirement Board owes a fiduciary duty to the members of the retirement plans it administers. In discharging the fiduciary duties the PERB must act solely in the interests of the members and beneficiaries of the retirement systems for the exclusive purposes of providing benefits to members and members' beneficiaries and defraying reasonable expenses. This is found in their enabling legislation under Nebraska Revised Statute, Section 84-1503.02. Current Nebraska law states, in relevant part, that: No assets of the retirement systems...shall be invested or reinvested if the sole or primary investment objective is for economic development or social purposes or objectives. This is found in Nebraska Revised Statute Section 72-1239.01(3). It supports the notion that the money held in trust for the members' retirement benefits are managed in a way that ensures the best possible earnings and diversification. LB412's approach to studying investments, fostering clean energy, and beginning the process of clean energy investment to the extent that it's consistent with prudent investment strategies is undoubtedly noteworthy. However, investing as proscribed in the bill will limit plan members' diversification of assets and may result in reduced earnings. These would both be contrary to the plan members' best interests. Thus, the PERB, as fiduciaries of the members' money, must oppose such practices. Further, all contributions to the retirement systems: shall only be used to pay benefits to such persons and to pay administrative expenses according to the provisions of the governing legislation. And there are multiple citations to the enabling legislation of each of the plans provided for you. It would be inappropriate for the PERB, as fiduciaries of the members' money, to condone the expenditure of trust fund assets on any expenses that are contrary to the members' interests. Therefore, the PERB would be opposed to expending members' trust fund assets to pay for the time to research the investments, compose a report based upon such research, or otherwise implement the bill. For the foregoing reasons, the PERB opposes LB412. Subject to your questions, this concludes my testimony. [LB412]

SENATOR KOLTERMAN: Thank you, Mr. Hill. Any questions? Okay, appreciate it. Neutral. How many neutrals do we have? I think we have one neutral and one written testimony for neutral. [LB412]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, members of the committee, I'm Michael Walden-Newman, that's M-i-c-h-a-e-l, last name is W-a-l-d-e-n, hyphen, N-e-w-m-a-n. I'm the State Investment Officer with the Nebraska Investment Council. Committee members and members of the public here, I'm here to testify neutral on the bill to the extent it involves us putting together a report for the committee and the Legislature. We're here to do that if that's your desire. I've been in communication with Senator Bolz's office about this, as she said. And we can sure get you the information, if that's what you'd like. Happy to answer any questions. [LB412]

SENATOR KOLTERMAN: Thank you. Any...Senator Lindstrom. [LB412]

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SENATOR LINDSTROM: Thank you, Chairman. Quick question for you with regards to maybe the philosophy versus the practical application of how this could be done. For example, in underlying investments, say, mutual funds, ETFs, very hard to do, correct, because typically in any fund you're going to have a component in there, maybe 5 percent up to 10 percent of call it fossil fuel, ExxonMobils, things like that. Would that be a correct statement? [LB412]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, that's correct. How about I answer a question that I think you're getting at, and that is, how would we do this? [LB412]

SENATOR LINDSTROM: Sure. [LB412]

MICHAEL WALDEN-NEWMAN: I've thought about it. And I think the easiest way to approach this would be to simply poll all of our investment managers with the questions asked in the legislation, get those responses back, compile them, and report to you. [LB412]

SENATOR LINDSTROM: Except for the managed accounts, I know you can put, say for example if you're opposed to what they call "sin" companies, what portion of our investments are in separately managed accounts? Do you know that off the top of your head? [LB412]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, the bulk of our assets are in separately managed accounts. We have passive managements where they're in index funds, but they're separate accounts. We do have some commingled funds. [LB412]

SENATOR LINDSTROM: Okay. How about on the fixed income side? Are there any holdings that are corporate, fixed-income, that are Exxon or anything like that, any energy companies? [LB412]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, when we...and I have those statistics for you. When this was brought up last year in LB1069, we did present some information in the fiscal note. And I believe it's repeated in the fiscal note for this bill in terms of the holdings by indexes that were energy and not to be able to quantify just how much is there. And I've got it here in the seat. [LB412]

SENATOR LINDSTROM: Okay. Then just two more quick ones, Chairman, so I know where I am. [LB412]

SENATOR KOLTERMAN: Go ahead. [LB412]

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SENATOR LINDSTROM: I looked this up right before because I just wanted to have my numbers right. I saw ExxonMobil has a dividend yield of 3.6 (percent), which gets us to about halfway home when it comes to the 7.5 percent we're trying to achieve on the annual basis. So you'd have about 3.9 percent in appreciation or capital appreciation to hit that bogey. How hard would it be, when divesting from fossil fuels, would it be to replace that with a green energy component that has a dividend yield, if any, to one, outpace inflation; and two, to achieve the 7.5 percent? Does it exist? Can you talk about that? [LB412]

MICHAEL WALDEN-NEWMAN: Mr. Chairman, Senator, yes. It goes to...I'm approaching my neutral testimony very narrowly--just to be clear--very narrowly, because the bill only asks us to provide information. Okay? [LB412]

SENATOR LINDSTROM: Right, okay. [LB412]

MICHAEL WALDEN-NEWMAN: To be clear, we were opposed to LB1069 when it required divestiture, because--and this goes to your question--because we want to have the ability to invest across the broad market. And to carve out a piece of that market and make that unavailable we view as a disservice to the beneficiaries in the state of Nebraska, who is our ultimate client. But...and it's difficult to quantify, but we would do our level best to...in this case, with LB412, answer the questions and report those back to the Legislature that are held within the legislation itself, within LB412. [LB412]

SENATOR LINDSTROM: Okay. And then I guess this isn't maybe...maybe this is a question for somebody in the audience, but I'd just be curious going on that same track, how far do we take this? Is it just energy companies or is it, say, for example, we don't invest in Coca-Cola because they use a truck to transport Coca-Cola and use fossil fuels to transport that? I guess, how far do we go down the list as far as companies we can or cannot invest in? And that's not necessarily a question, maybe just somebody that comes after could touch on that. And that would, obviously, come from maybe the study and what goes into it. But I'm just curious about that, so thank you. [LB412]

SENATOR KOLTERMAN: Any other questions? Thank you, Michael. [LB412]

MICHAEL WALDEN-NEWMAN: Thank you. [LB412]

SENATOR KOLTERMAN: Any other neutral? Senator Bolz. [LB412]

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SENATOR BOLZ: Very briefly, I just have three quick points. The first is that this kind of research can be done. It's already being done in California. The second point is that we may find that our investment portfolio does include a number of green energy companies in a way that is quite positive, both for the moral considerations and the financial considerations. And a third is to the point about resources to put the research together. I'll remind you that the bill has no fiscal note. Thank you. [LB412]

SENATOR KOLTERMAN: Any questions? Thank you, Senator Bolz. I would again like to thank everybody for coming today. I hope we were fair with the testimony, both pro and con, and really appreciate you coming to testify. That concludes our hearing today and it's five after. Thank you. [LB412]