

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: All right. Good afternoon, ladies and gentlemen. Welcome to the Government, Military and Veterans Affairs Committee. My name is Tom Brewer. I'm representative for the 43rd Legislative District and the Chair of this committee. We will start today by introducing our committee members starting on my right with Senator Blood.

BLOOD: Good afternoon. I'm Senator Carol Blood. I represent District 3 which is western Bellevue and southeastern Papillion, Nebraska.

LOWE: John Lowe, District 37, southeast half of Buffalo County.

La GRONE: Andrew La Grone, District 49, Gretna, northwest Sarpy County.

M. HANSEN: Matt Hansen, District 26, northeast Lincoln.

KOLOWSKI: Rick Kolowski, District 31 in southwest Omaha.

HUNT: Megan Hunt, District 8 in midtown Omaha.

BREWER: And Senator Hilgers is inbound, so we'll see him when he's able to make it in. On my right, the legal counsel, Dick Clark. On my left, committee clerk, Julie Condon. And our-- let's see, today for our pages we've got Preston and Cadet. Both there? Yeah, there they are. All right we're good. Today's for our public hearing we have LB9, LB337, LB386, LB609, and LB273. Some administrative things to run through here. First off, I would ask that you mute your cell phones or electronic devices. Just be aware the senators will be getting their messages via their-- their cell phones and they'll be making notes on their computers. So, don't be distracted if they're using them. If you wish to record your attendance, I may fill out the white attendance sheet on the table. If you wish testify, please fill out the green testifier sheet. If you plan to pass out material, we'd ask that you have 12 sets. If you don't, alert one of the pages and they can make copies for you. Letters to be submitted to the committee need to be in by 5:00 p.m. the day before the public hearing. Each letter must include your name, address, bill number, and your position and a note saying that you want it in the public record. Mass e-mails are not going to be included in those. For the hearing itself, we'd ask that if you're planning to testify on the current bill that's being testified to, that you would come forward and be in the front so that we have some idea how many are going to be testifying. When you come up, we ask that you would state and spell your name for the record and

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

please speak loudly and curtly. After the senator does the opening on the bill, we'll have proponents, opponents, and those in the neutral capacity. And lastly, we'll afford the senator an opportunity come back for closing. We'll be using five-minute rule today; lights system--green for four; yellow for one, and then the red. And then if you don't notice the red we'll also have an audible to make sure you know your time. With that said, our first bill, LB9. Senator Blood, welcome to your committee on Government, Military and Veterans Affairs.

BLOOD: Well, thank you Chairman Brewer, and good afternoon to the other members of the committee. My name is Senator Carol Blood. I spell that C-a-r-o-l B as in boy l-o-o-d as in dog. And I represent District 3 which is western Bellevue and southeastern Papillion, Nebraska. I'd like to thank you for the opportunity to present LB9 this afternoon. Just a year or two ago, very few policymakers had an inkling of an emergency technology-- as an emerging technology known as distributed ledgers. And still today there can be misconceptions as to what it does. Most of you've only heard of a type of digital ledger known as blockchain, and likely associated with the cryptocurrency known as Bitcoin. Digital ledgers are more than blockchain are, in fact, a technology that decentralizes information for faster access and greater security. It is often associated with virtual currency because it records when a transaction is carried out. The parties involved in the transaction and that both parties in the transaction are who they say they are. These records are permanent and unchangeable. Now it's definitely true that blockchain provides the underlying technology that helps cryptocurrency exchanges. But the reality is that the potential-- is the potential uses for digital ledgers, what this bill protects, far exceeds the small application of cryptocurrency exchange. They provide fast, secure, and transparent methods of transmitting data. So as I mentioned earlier, in the center of a blockchain network is known-- is what is known as a shared ledger. This ledger records all the transactions that take place within a network. It distributes exact copies of that record. The records in blockchain are crypto graphically protected so they cannot be changed and are then shared to all members on the network which makes it virtually impossible to hack since red flags are immediately noticed by multiple nodes. Now, not all digital ledgers are alike though. Bitcoin operates through a blockchain and a network of anonymous participants, while other enterprise class digital ledgers are openly governed and future positioning to handle interactions between participating parties. So here's where it gets exciting, at

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

least for me. Digital ledgers can ensure that a single shared and safe copy of the truth is created embedding a new level of visible trust across networks. The National Conference of State Legislatures, NCSL, is just one organization that has made it clear that all governments should, at the very least, investigate these technologies and their application to the provision of their core services. So in an era where we mistrust our government and we're really nearing all-time lows and transparency has become the buzzword, digital ledgers can serve as a cornerstone for building trust and improving the relationship between the government and the people we represent. Government at all levels are now beginning to sort these issues out and states are racing to get good technology legislation on the books. Several states like Vermont, Utah, and Arizona have passed similar laws to LB9. The bottom line is that it won't be long before all the states have to start making decisions regarding digital ledgers, but they may have missed the window of opportunity to define the technology and protect its use in their state. Digital ledgers have-- also had the potential to reduce the cost and complexity of getting things accomplished across most industries and governments. In particular, imagine a system in which every government payment is available for public scrutiny. It's not a dream. It could actually happen. That's true transparency. They can also provide for better disaster recovery due to the distributed nature of the information and save costs due to off-site physical storage. So it's clear how and-- how valuable digital ledger technology is by its pervasive use in the private sector. Organizations like IBM have hundreds of blockchain projects underway in diverse industries that includes supply chain, food safety, government, healthcare, travel and transportation, chemicals and petroleum, insurance, and so much more. It's helping to unleash new business models as these networks take hold. In fact, Forbes has listed blockchain ledger technology as one of the top 10 business trends of the last few years. American companies are already leading the way by using blockchain for business with transformative results. We in the public service should-- should catch up with them. And this bill provides a pathway to do that by inhibiting any unnecessary regulation. Businesses in the area of food safety, including a coalition of 12 companies made up by Walmart, Unilever, and Nestlé, are working with IBM to apply enterprise blockchain to the challenge of provenance and transparency in the global food supply chain. Here blockchain is being used to quickly pinpoint the source of contamination, the spread and ease of accessing data, and then reduce the impact of food recalls and limiting the number of people who get sick or die from foodborne illness. And when 400,000 people every year

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

around the world die from food-borne illness, there is clearly a need for technology to enable a rapid response to these issues. Digital ledgers are where these companies have found their answer. To further show the utility of this technology, Maersk the largest-- the world's largest shipping company is working with IBM on a separate project to create an industry-wide trading platform for public and private organizations responsible for ocean freight. This industry accounts for 90 percent of goods shipped in global trade. Currently, one shipment of goods between two ports can generate a sea of paper and information exchanges between 30 different public and private organizations. Digital ledgers are being used to help track in real time millions of shipping containers around the world by providing a trusted tamper-proof, cross-border system for digitized trade documents. When adopted at scale, the solution has potential to save billions of dollars of waste, increase global trade, and improve economies. Even now federal agencies and local governments are engaging in pilot projects including the FDA and CDC, both of which are exploring how it can be used to improve public health. Nebraska residents and their governing organizations can most obviously benefit from this technology and we should continue to encourage further collaboration between government, academia, and the private sector. An additional benefit is that we prepare our citizens for high-skilled and high-paying jobs. The average blockchain engineer makes up to \$175,000 a year. This helps us retain and attract new residents, especially those in our-- serving in the military. Digital ledgers are already being used in Nebraska at Innovation Campus at UNL, who have been proffered-- profiting from its many benefits. So the bottom line, Nebraska needs to stay ahead of the curve in respect to technology rather than only being reactive and trying to play catch up once the floodgates are truly open on this emergency resource-- not emergency, emerging resource; sorry about that. Do we want to tell cities, villages, and municipalities that their systems need to change after the fact? Let's be sure this state is the final word on legislation when it comes to this technology. We can do this through LB9, which simply makes it so that political subdivisions, cities and villages, are not able to have their own separate laws that would create a patchwork of regulations across the state when it comes to digital ledgers. I don't believe it's in the best interests of the technology to be open to regulation or taxation from any city, village, or municipality due to the sensitive nature of the material it may house and the complexity of the system that is employed. We don't always elect-- we don't allow this kind of small-scale regulation or taxation on things like bank transactions, and there is no reason to believe it

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

would be a good idea to have different taxes and fees for each city or village the transaction involves. This bill is in effect just looking to avoid unneeded confusion and unwanted red tape and help support the free market. And frankly, many of the organizations across the nation are surging towards this technology and already have regulations in place that protect consumers and their communities. They are still doing business in the same way, only using more effective technology. They're going from a four-door family sedan to a luxury car. The end result is the same. It's just the ride that's different. So if anyone is worried that they'll be pushed back from the cities or counties, I want to make it clear that I have talked to League of Municipalities, NACO, and both organizations understand the rationale for this bill and have no problem with it. With that I would ask you to please advance this bill out of committee to the full Legislature and I would be happy to answer any questions you might have. Sorry, that was a lot of information.

BREWER: Thank you for your opening. Questions on LB9? Senator Hunt.

HUNT: Thank you, Chairman Brewer. Thank you, Senator Blood. I, as a freshman, I obviously wasn't here, but before this year I was definitely a fan of the Legislature following on NET and keeping up with what you all are doing.

BLOOD: We can be entertaining.

HUNT: It's like a soap opera. And now that I'm in it, I can attest that that's very true. But have you-- did you bring a bill like this before? Because I feel like I remember this coming up before.

BLOOD: I did, and I'm actually very glad that you asked that. So I actually had three bills that pertained to this topic in two-- two different committees, and one was-- this bill was in this committee previously. And to be really frank, the hurdle that I had was explaining the technology. We had people who were enthusiastic about it, but could-- and they were very frank with me, they just couldn't get their brains wrapped around it, and so were hesitant to help move the legislation forward. By the time I spent about 30 days explaining it to people, and I know there's a couple of people sitting here that we had many, many, many conversations, Senator Brewer, that I lost my window of opportunity to get it on consent-- on the consent calendar and I lost my window of opportunity to make it a priority bill. So it is really my hope, even though I have a later hearing again, not as late as last time, that we who meet this-- I kept the simplest of the

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

three, because I'm going to do this like eating an elephant. Right? We're going to do it one bite at a time. And so the best way for me to start out of my goal of moving Nebraska forward in this technology-- area of technology is by eliminating hurdles, so young entrepreneurs know what to expect when they come to Nebraska.

HUNT: Thank you. I mean honestly I don't understand it either. And I understand as much as you can understand from reading this bill--

BLOOD: Don't say it in public.

HUNT: --in reading the news. But the thing is, you don't have to understand the details to appreciate that it's important as a society and as a state for our government technology to move forward. You know, I know that I wasn't elected because I'm a technology expert. We were elected because we can have good judgment and make decisions about the plan that we have as a state for, you know, moving into the future and keeping up with other states. So you said that other states are doing this already?

BLOOD: They are, and we actually had an opportunity to be one of the first out the gate and we lost that opportunity now. So now, we're going to be this usual in the middle of the pack.

HUNT: Well, sometimes that's OK, because other places have worked out the kinks and we can learn from mistakes other places have made. And we are a conservative state and I think that it's good to learn from other people's mistakes so we don't have to make them first. So thank you for bringing this bill.

BLOOD: And I appreciate that. But I have to say, in defense of this bill though, that they didn't make mistakes, they went far ahead of us. And so-- and what we lost out on also is that young entrepreneurs actually like to come to Nebraska when we open doors like this because it is so inexpensive to start a business in Nebraska. The rent is cheap. The cost of living, if they move people from another-- not all states from-- from state like the East Coast or the West Coast people can actually own their own houses and pay them off in their lifetime. So I feel like this, not only can we do this with technology, but it's a huge economic development tool that cost us nothing. I don't have to give an incentive--

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

HUNT: As a young entrepreneur, I agree completely. Thanks for making that point.

BLOOD: Thanks for the question.

BREWER: All right. Additional questions? I have to tell you that after this morning, there's days it feels less like a soap opera more like a horror show. But, all right, let's see, any other questions?

BLOOD: I'm not sure about that.

BREWER: All right, you're going to stick around for closing I assume.

BLOOD: I am. And I traveled light, I don't even know that we have anybody here.

BREWER: Oh, well then I'll save questions for closing. All right, those who are proponents of LB9, come on up. One more time, LB9. All right, opponents? Wow, you did travel light. Those in the neutral position? Come on up. I'll get to ask my question after all.

BLOOD: And I have to tell you, one of the reasons I traveled light this time is I felt that by bringing in so many people that were experts in specific areas, but it confused the senators instead of clarified things for the senators.

BREWER: All right, let's just back up a little bit and I-- I feel like I understand a whole lot better after last year. So you did a good job of at least taking something that was impossible to understand and cleared up some.

BLOOD: I'm trying.

BREWER: But let's take, for example, in Nebraska.

BLOOD: Yes, sir.

BREWER: Real world, everyday impact that we could see if we passed this bill, what-- what would that look like? What would it be?

BLOOD: Well, there will be several benefits.

BREWER: OK.

BLOOD: First being economic development, which we've already covered, so I won't rehash that. Better healthcare, more efficient insurance.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

In fact, I was just stopped by an insurance lobbyist last week who said that they are very excited about this type of legislation because it will help them be more cost efficient when they move contracting forward. And that would also benefit our farmers. It would benefit people who sell retail. They have to contract to sell that retail. Because I think you've heard me say this before, so to really, really simplify how the contracts benefit people like you and I, you-- let's say, Senator Brewer and Senator Blood enter into a contract. We're going to get together; we're going to decide what those terms are. And I always think of it as dominos. So we get together, we decide where to do-- he's going to sell me a truckload of apples and I'm going to sell him my grocery store. We talk about the circumstances. And I say, OK, Senator Brewer, if you sell me those apples and you're a day late, I'm going to take 5 percent off the invoice so you can get 5 percent less. It looks like there's two or three toll bridges on the way. You need to include that, will have to be paid. And should you be a day or two late, I'm going to also punish you another 5 percent. But if you're two days early, I'll give you an extra 10 percent. Well that's a lot of information right? But you program that to really, really make it as simple as I can, you program it into your contract. And so the first domino falls when that truck leaves his apple farm. Right? Gets to the next toll bridge, the toll is automatically paid through the DLT contract, two tolls. He is on time and early he gets an extra 10 percent. And because the contract has been completed, it immediately pays him. And he won't be waiting 60 days for me to pay him, nor will he need to invoice me. Does that make sense?

BREWER: Actually, that is the best description you've given. Maybe it's because-- because it's simplified enough I can understand it. Now, another question for you, last year we got kind of-- kind of confused a little bit with the issue of how money was transferred and all. And the theory was that this was more reliable because it was kind of foolproof.

BLOOD: It's again, once the contract is completed, that person is paid. Because that's all done at the very beginning of the contract.

BREWER: Would you say that this legislation would be supported by bankers?

BLOOD: I have had multiple bankers tell me that it's already being utilized in the industry. Don't ask me how, because I'm not a banker, but I have been told that.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: All right. You did travel light today.

BLOOD: I tried to please.

BREWER: No other questions. Thank you for your testimony and your closure.

BLOOD: Thank you, sir.

BREWER: All right. To wrap it up on LB9, we have one letter in the proponents, we have none in opposition, and none in the neutral position. With that said, we will close the hearing on LB9 and we will move to LB337. If I use these, it would be easier. And, oh my gosh, we-- we have a banker; I just can't ask you the question I wanted now.

STINNER: I was trying to hear the testimony.

BREWER: Anyway, Senator Stinner, welcome to Government, Military and Veterans Affairs. You may begin whenever you're ready.

STINNER: Well, good afternoon, Senator Brewer and members of the Government, Military and Veterans Affairs Committee. For the record, my name is John, J-o-h-n, Stinner, S-t-i-n-n-e-r, and I represent District 48 which is all of Scotts Bluff County. LB337 would require the Department of Administrative Services to include in its annual budget report on agency budgets requests information that complies and summarizes aggregate federal funds information, percentage of agency budget totals consisting of federal funds, a description of requirements and agreements attached to federal funds. Included in the reporting requirements would be operating plans in the event federal receipts are reduced by 10 percent or more and 25-- or-- and 25 percent or more. There are a number of items which are required under this report including the aggregate value of federal funds appropriated to agencies for the preceding fiscal year, the aggregate amount of federal funds appropriate to agencies for-- for the preceding fiscal year, the percentage of agency total budgets for the preceding fiscal year that constitutes federal receipts, a description of any requirements for state match including a memorandum of understanding, maintenance of effort, or a contract entered into with any federal entity to receive federal receipts for the preceding fiscal year, an operating plan event that the federal receipts are reduced by 10 percent or more at-- or 25 percent or more for the preceding plan. An operating plan in the event of the federal receipts are reduced by 25 percent or more for the preceding fiscal year. The

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

intent behind this legislation to provide a reporting mechanism to the state to hedge against any fiscal stress further down the road. As legislators, it's imperative we understand the complexities that often surround federal programs and foresee an unintended consequence measuring the costs and benefits of statutory compliance and incorporating overall evidence based practices is critical. It is important we as legislators examine agency obligations, determine whether they are mandatory or optional programs, re-evaluate priorities from time to time to ensure responsible stewardship of agency mission, and is given an early warning system as to sunset provisions. I think we all understand that oversight measures must be in place to provide accurate reporting of obligations and to give the legislature a deeper understanding of commitments made by each agency to ensure statutory compliance. LB337 also allows for greater accountability of what has become a sizable portion of the Nebraska budget measures the impact of these federal programs. It gives elected officials more information at their disposal to review and understand federal grants being awarded and allows for measurement of federally funded programs. The bill also establishes formal contingency plans for agencies when analysis is necessary to identify the root cause of various issues agencies will face, including disruption of federal funding. Currently, the federal grant applications are initiated and managed by each agency individually. While federal funds are identified in budget bills, they are typically shown as estimates and the commitments incurred or other maintenance of effort requirements are typically only known to the agency dealing with-- directly with the funds. LB337 would standardize a report of federal funds to prepare for any future disruptions. I'd also like to mention briefly that I'm in discussions with the Governor's Budget Office and Nebraska's educational institution on a couple of different issues and intend to bring an amendment to the committee. First, I'd like to say that I-- I'm very willing to work with the Gerry Oligmueller and work out an agreement as to how the Legislature can ensure it receives the information sought after under this bill. I've also been in discussion with our educational institution to work out an agreement for exemptions on student financial aid and competitive research grants due to the nature of these institutions that receive hundreds even thousands of these federal grants, and they also are subject to audit. Much of these are tied to research or even the students themselves. My discussion with the educational institutions have centered around alleviating concerns that LB337 would place an onerous burdensome reporting requirement on those-- those items. Finally, let me explain a threshold that would exempt agencies less dependent on federal

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

agencies. These thresholds would work by looking at the federal fund receipts as a percentage of the total budget and exempt those agencies under a certain percentage or in a certain amount. The intent is to maintain a focus on agencies that aren't dependent on federal funds. I would appreciate your consideration of LB337.

BREWER: Thank you, Senator Stinner, for your opening. Questions on LB337? I think you've picked such an interesting topic that no one has any questions.

STINNER: Thank you.

BREWER: Thank you. All right. Proponents of LB337? Welcome to the Government, Military and Veterans Affairs Committee.

SARAH CURRY: I want to apologize ahead of time, I have a bit of a cold, so if I cough or sneeze that's why.

BREWER: Well, keep your distance, you're good.

SARAH CURRY: My name is Sarah Curry, S-a-r-a-h C-u-r-r-y, and I'm the policy director for the Platte Institute and I'm here to testify in support of this bill. As you were well aware, Nebraska is not in the best situation when it comes to its budget or its revenues. And I believe this bill requiring an inventory of federal funds will help prepare Nebraska for might be a much bigger fiscal problem in the future. Much of the federal government's budget is comprised of grants that go to the states. It is very unlikely in the near future that the federal government may decide to reduce the amount of money they send to the states in general and Nebraska needs to be prepared. Less than a month ago, we saw what the government shutdown meant for states. But the scary part is, is that state government officials, like yourselves, don't know the details of the federal funding, so it's very difficult to prepare. States cannot see where federal money is going in their state and Nebraska is no exception to this. For fiscal year ending June 30, 2018, Nebraska budgeted \$3.3 billion in federal grants, which is a slight decrease from the state's all-time high in 2011 as a result of the federal stimulus package. In addition to nearly 30 percent of the state's overall budget consisting of federal grants, the federal government also ties Nebraska's purse strings with unfunded mandates across multiple agencies and departments. And when you get your handout, you'll see I've included a chart that shows the growth of the federal funds in our state budget. Nebraska along with other states has become increasingly dependent on federal funds, and

**Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019**

if they were to be drastically reduced or stopped, the state would be unprepared to provide the essential government services that these funds provide for Nebraskans. Nebraska is however in a better situation than most states because federal funds are appropriated through the budget process, but there's still a lack of information when it comes to the details of these grants. Nebraska needs to measure the federal grants coming into the state in order to have a clear picture of what effect they are having on state government. According to the last annual budgetary summary, there are 33 agencies or programs in Nebraska that are funded with federal money. Eight of these agencies have over 50 percent of their budget-- budget coming from the federal government. I've outlined the top agencies there, and then I also have a chart included that has all the agencies in Nebraska with federal funds. This bill creates an inventory of all these funds, essentially an audit that includes how the grant-- how long the grant lasts, if there are any state matching dollars required, or any maintenance effort or requirements attached to the grant. Then the inventory will ask the agencies to create a contingency plan in case of a hypothetical reduction. I've included a handout from Utah's report, so you can see an example of what we're trying to do. And if time permits I'll go through that. Other states have implemented similar inventories and some have already seen the benefits. Utah was the first state to enact this legislation to address the growing problem of federal funds. Idaho's Governor enacted an Executive Order establishing an annual reporting requirement for state agencies receiving funds in 2014, and the following year the Executive Order was codified in the statute. Most recently in 2015, Mississippi passed a similar law that requires state agencies to not only report their federal funds but to also calculate the effort required to maintain those grants. Indiana took a different approach, and in 2013 former Governor Mike Pence signed an Executive Order to create the Office of State Based Initiatives which employ someone to inventory and perform a cost benefit analysis of the grants as they are requested from state agencies. I have examples from some of these states if time permits. We know where our state taxes go, but nobody knows where all the federal dollars go that come into our state or their true costs or all the strings that are attached to them. Those federal dollars are not free. They come with current and future commitments. This bill will require an agency by agency inventory of all federal funds coming into Nebraska and the strings attached to them. Measuring the impact of the federal funds and their impact of a coming spending crisis is only possible with this information that the inventory will give. Today we simply do not know the impacts of future

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

federal funding cuts. We do know that Washington will not cut our states-- will not cut funds with our state's prosperity in mind. Across the board cuts will hurt everyone. This legislation will provide a risk assessment so that states and local officials can see those impacts and make smart decisions. And finally, the legislation makes it possible for all of you to act in the best interests of your constituents. Imagine this year, amidst our current budget situation, that the next recession hits and the federal government enacts another sequestration. Many Nebraskans would be left without the services and the jobs they've come to depend on. What can Nebraska do and how can we can ensure our citizens are safe and spending is prioritized for those who really need it. This bill will establish each of you to create a plan and act on that information to make the best decision. In the examples here, I brought just from the Utah report so you can see, meat and poultry inspection, they're required to spend that money to meet federal standards. Do you want me to continue or stop on red?

BREWER: Well, let's see, why don't you--

SARAH CURRY: I was just going through them real quick.

BREWER: Tell you what, let me-- let me ask you a question.

SARAH CURRY: Sure.

BREWER: Yeah, I killed it when I [INAUDIBLE] here. All right. Go ahead and finish where you're at and then I'll jump in with a question.

SARAH CURRY: OK. I was just going to say, meat and poultry inspection, they're required to spend money on this to meet federal standards with an infants and toddlers disabilities program. The federal government requires that they spend the same amount every single year or they will be reduced in their federal funds. Teaching and learning, it shows that the federal government actually mandates spending at the local school district level if they are to receive these moneys. Veterans nursing homes, there is no state matching funds, but if there was a cut in what the federal government provided, it would be an increased cost to the families, or a decrease in the services to those veterans. And then with low income housing, energy assistance, again, it would ultimately hurt low income families because those services would have to be cut. So I wanted to give you examples across the spectrum of our state government-- our state budget to show the impact that federal funds have and that way you could see why this information is valuable. I'd love to give you this information for

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

Nebraska, but I can't. And that's why I want this inventory so that way we can have that and have that discussion. Thank you, Senator Brewer.

BREWER: Thank you, Sarah. I guess you put a ton of work into this. This is-- I've never seen--

SARAH CURRY: I've been working-- I've been working on this issue since 2013. I was actually a part of the Utah group that helped get that passed in Utah and also the Idaho group.

BREWER: All right. Questions for LB337? I'm going to go to the lady first. Please, go ahead, Senator Blood.

BLOOD: See, now I'm at a loss for words. Thank you, Chairman Brewer. And I hope you feel better. Thank you for your testimony.

SARAH CURRY: Thank you.

BLOOD: That's got to be tough. So I had a couple questions. And some of them are going to be clarifications. I'm just trying to get my head wrapped around this. This bill was here before, right? This isn't-- like, within the last two years I've seen this bill.

SARAH CURRY: That's correct. Yes, ma'am.

BLOOD: If I remember correctly, didn't ALEC come in and support that bill during that time?

SARAH CURRY: They did, because of the weather and the-- everyone being in session, they have submitted a letter on behalf; also the person from Idaho that was involved in that, also came last time to testify, and also because of his legislative session was unable to come in, he's also submitted a letter.

BLOOD: So I'm listening to this. And first of all, I, I'm pretty confident that we do get reports. I mean, I know I'm always going through the different budgets and the different departments. I mean I think we do get these numbers maybe minus the contingency plan. Do you see that that's correct?

SARAH CURRY: You do get the numbers. What you don't get is the maintenance of effort requirements. So if you look at the-- one of the examples I gave you from Utah, it will say, like for example, meat and poultry inspection. Let's say that you want to cut the state budget to

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

try to find money for one thing or another. This will give you that information so that you not being on the Appropriations Committee can know that you can't cut that program because it's tied to federal requirements. Where right now, you just know that we get a federal grant for something and you don't know what the strings are attached to it.

BLOOD: I guess I have never had trouble getting that information for me. But maybe that's just me. Well the thing that I'm concerned about is I'm hearing strings attached and mandates and-- and I'm concerned. I'll listen to all the testimony and I don't have my mind certainly made up at all. But I always look for red flags. Is this really about a contingency-- creating contingency plan, or is this about maybe we think there's government overreach and we don't want federal government telling us what to do?

SARAH CURRY: Well, it can be one of those two things or something else. Let's say that there's a program that you like and you want to spend more money on it and maybe the state could spend more money on it if we got the federal government out of the way so that we could expand the program. Indiana did that. They had a situation where there was a federal grant to do a pre-K program. But the federal government actually limited how much money they could spend. And they thought that the pre-K program was a great idea, but they wanted to expand it and make it bigger. So they did a cost benefit analysis and realized that they could actually include more children in a pre-K program if they didn't take the federal grant. And they found other funding sources and they made it bigger and they actually served a higher population of students. So I think it serves a couple of things. It gives you as a lawmaker more information on the federal grants that are coming in to the state and what the strings are attached. It gives you an opportunity to look where the money is going and the contingency plans, like you said. But then also allows a cost benefit analysis where if you like what something is doing, but you don't necessarily like all the details attached to it, maybe you could change the program or change the way it's being executed so it could better serve Nebraskans instead of like this one size-fits-all program that the federal government usually does.

BLOOD: So, so this is the point, I think, I'm going to disagree on then, because I think we can already do that without this legislation. Maybe it's not in the format that would be your preference, but I feel that we've definitely seen exactly what you're talking about when

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

we've looked at programming. And maybe some more experienced senators can-- can clarify and maybe [INAUDIBLE] that. So I'll keep listening and maybe I'll hear things that change that. But right now I'm hearing stuff that I feel that we can already do.

SARAH CURRY: So that, that's fair. I will just say that I look at this for a living, 40-plus hours a week, and I can't get the same level of detail on these grants that maybe you can as a senator. And so maybe as someone running for office or someone that's just interested in this information, they should have that same availability and access. And so in Utah and in Idaho now, they have a very easy to access report where I could access it just like I would the budget detail. But right now, I have no access to that in Nebraska. I can just pull the dollars. But I have no idea where those dollars are spent, how they're spent, are they ending this year, are they ending next year, how long the grant lasts? I don't know any of that.

BLOOD: Interesting.

SARAH CURRY: Thank you for your questions.

BLOOD: Thanks.

BREWER: Senator Kolowski.

KOLOWSKI: Thank you, Mr. Chairman. Where-- where do military contracts fit into this picture? We've got Offutt Air Base here in Nebraska. You've got other branches of the services in different parts of the state. Would you elaborate on that and what goes on with the military?

SARAH CURRY: Sure. So some of the military contracts are going to bypass the state completely. And so they're going to come from the federal government and go directly to Offutt and they're spent that way. Some of the military contracts will come through the state as a pass through and then go through the Department of Veterans or military and-- and are spent in that.

KOLOWSKI: Let me stop you there. If we're replacing the airfield at Offutt, does that direct money to something in the state or is it into a different category that doesn't have the same impact because that concrete is going to be delayed over X number of months or years to get that new runway?

SARAH CURRY: So I don't know specifically on that specific issue, but I do know that the way veterans works is, some of the money that goes

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

the veterans programs, it goes first to the state and then the state disburses it to those programs. And then there's other entities where the federal government bypasses the state and goes directly to that veterans or military program. So in speaking about concrete at Offutt, I don't know which path that money would take. But-- but it is coming from the federal government to Nebraska, and I believe it was a few years back there was a discussion about the airstrip at Offutt and they wanted to, and I could be wrong, expand it or re-- redo something with it, and the federal government wasn't going to send us the money because there was a spending cut then. And so the state looked at fronting that cost. And so having this information might just help make those decisions a little more clear or a little bit easier in the future.

KOLOWSKI: So you're trying to get more clarity into every contract that's out there?

SARAH CURRY: That's-- that's all we're asking for. So let's say that a veteran's program gets a five- year grant for something. You as a senator, you might say OK they're getting this \$10 million grant, but you don't know that that grant only lasts for five years or that the state has to spend a quarter percent of that in order to keep receiving those funds. And so sometimes those funds can just stop after a year and you don't know if there's an annual requirement to keep getting those funds. It's really just more information so when you're looking at these agencies and the operations of state government you have a better idea of where the money's coming from. Because realistically, the federal government has quite a large deficit and they're having to issue debt to pay a lot of their obligations. And if they wanted to cut a lot of their debt, it'd be very easy to say let's just cut all the grants to the states by 5 or 10 percent. And they're not going to say cut it here, cut it here, because that's better or that doesn't hurt people, it's just going to be across the board cut. And that's what we're anticipating in the future.

KOLOWSKI: What you're saying that I don't have any knowledge of reading the-- reading the contract here in Omaha, Nebraska, compared to where you're coming from. It should all be there in the contract should it not?

SARAH CURRY: No. It should all be there in the contract, but it's not.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

KOLOWSKI: Why is it not?

SARAH CURRY: Because it's not reported. I don't know why--

KOLOWSKI: So all the research you've done you haven't had complete information on all the topics you're looking into?.

SARAH CURRY: I could not pull the meat and poultry inspection equivalent to what Utah is doing and what's happening in Nebraska. I could not pull that information unless I submitted a series of public records requests. Now I could not get that.

KOLOWSKI: So, you can get it through the public records.

SARAH CURRY: Records request, but all of state government, if I wanted to look at our federal grants and see which ones are expiring next year, that would be an immense amount of work. And I know speaking with Senator Stinner, and I don't want to speak for him, but he said having a report like this would be helpful on the appropriations process to be able to anticipate, you know, federal grants expiring. Recently, and not to drag us on, but the Omaha situation when they got the transportation grant and they wanted to remove some of the crosswalks in front of elementary schools, that was a federal grant issue. And the details that federal grant were not released. And actually that situation happened in my boss's neighborhood it affected his children. And still I could not get the exact details of that grant from the city of Omaha to see what the specific details were. I had to go the federal government and try to-- and try to get through it that way. So really it's just more clarity and understanding where the monies are going or what the strings attached to that so we don't have unintended consequences that hurt Nebraskans.

KOLOWSKI: So there's no similarity between contracts from the feds that have A, B, C, Z, I'm finding all the summary things I'm looking for?

SARAH CURRY: Right. So if there's a contract or--

KOLOWSKI: There isn't?

SARAH CURRY: No. So if a grant goes to the Department of Agriculture, it's going to be structured and laid out differently than a grant that goes to Health and Human Services. They're totally different. Some of the same information might be included in them, but it's not going to be in the same place, it's not going to be reported in the same way.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

And I know when I was looking at this two years ago, the question did come up, well what about if there's a federal grant that's just stopped. And I know one was dental care to the Indian reservations in Nebraska. And the comment was made, well if they stop sending us that grant, we just won't do that anymore because we don't have the money for that. And I don't think that's the right approach to have. We should be able to anticipate that if it's a important enough issue.

BREWER: OK. Go ahead, Senator.

HUNT: Thank you, Chairman Brewer. Thank you, Ms. Curry. Thank you for being here, even though you're not feeling well. I'm-- I'm a little bit interested in talking about these fiscal notes. So, I understand your point, I think it makes sense about how quantifying all of these costs and all these strings attached and mandates or whatever will put a burden on different agencies. But from this report, what I'm seeing in the fiscal note, is that a lot of these agencies are quantifying the extra work it's going to take. And so this is going to be a lot of new employees for the state to do this work. Did any of the other states where this happened, can you talk about the fiscal impacts in those states?

SARAH CURRY: Sure. And I'm really-- I'm really glad you brought that up. Senator Blood to your point, when this bill came up last time, the reason-- it did receive General File debate and passed and it did not move forward because there was a small fiscal note attached to it. And I've reached out to all of these states. There was no fiscal note in Utah, Idaho, Mississippi. There was a very small fiscal note in Indiana, and that's because they did hire a full-time person and create a new office. But we're not advocating for the same model, if you will, that Indiana did. So there was no fiscal impact. I have contacted the Utah Department of Finance; I asked them to weigh in. Because of their government regulations, they're not allowed to talk to other-- to testify. But they said that it's not been very difficult for them because them as the Department of Finance in Utah, the agencies just send them everything and they compile it in a report and then they have it there every year. So the fiscal note to me has been a bit of a mystery, maybe that's the wrong way to put it. But none of the other states had this issue. And they have a lot more federal money coming in, because when you're a western state like Idaho and Utah, a majority of the land is owned by the federal government. And so they get a significant amount of money from the federal government in PILT, which is payment in lieu of taxes, that goes from the state

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

through to their local governments. And so they were able to do this without any fiscal impact. And so Nebraska, having less federal funds than Utah and Idaho do, I think that they would be able to do it without hiring any additional FTEs.

HUNT: You think current FTEs can already do the work?

SARAH CURRY: Yes, I do. Because I think they have all this information. All we're asking them to do is to compile it and put it together and come up with a contingency plan. They might not have the contingency plan written out, but any person in finance knows you have to be prepared for a cut or a surplus here and there. And I think that's a healthy thing-- or exercise for them to go through.

HUNT: OK. Thank you.

SARAH CURRY: You're welcome.

BREWER: All right. Additional questions?

SARAH CURRY: [COUGH] Excuse me.

BREWER: Sarah, just kind of help out a little on the question reference military part of it. When I was working with this, it was pretty much a direct pipeline for any funding that went to Offutt, and it was for construction on the existing footprint of Offutt Air Force Base. So the military department money, when it came to the military department, then it was divided, depending on whether it was Air or Army or state, because you have state employees who work for the military department. So it simply continued to divide as needed as it came down the line. Separate from that in its own entity would be the veterans stuff because there are two giant coffers that are separate at-- at Washington. So anyway, just so you understand, if it hit Offutt and it was solely for the purpose of construction on Offutt Air Force Base, that was usually money that really wasn't something that you had a lot of visibility on. You saw where it was spent, you could see where the money was spent, but it was completely separate than from what is called, and here you've got it as Nebraska military department or department of military. And so even though it's all coming to Nebraska, that was kind of a stand-alone, separate. OK, other questions? Seeing none, thank you for your testimony.

SARAH CURRY: Thank you.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: OK. Additional proponents for LB337? All right, seeing none, opponents? Come on up. Welcome to the Government, Military and Veterans Affairs Committee.

GERRY OLIGMUELLER: Thank you. Chairman Brewer and members of the Government, Military and Veterans Affairs Committee, for the record my name is Gerry Oligmueller. My name is spelled G-e-r-r-y O-l-i-g-m-u-e-l-l-e-r. I'm the State Budget Administrator and administrator of the Department of Administrative Services, Budget Division. I'm here to testify in opposition to LB337 as written. I do agree with the importance of reporting on the use of federal funds as part of the state budget and the importance of understanding the implications of their acceptance and use, especially when that places requirements upon our own tax sources and taxpayers, or adversely impact state services due to subsequent reductions of federal appropriations. There is already considerable information reported and published under current state law on the appropriation and use of federal funds. My opposition stems from the specific provisions of LB337 that are in conflict with current law or create additional costs that have not been fully recognized by the legislative fiscal analysts in the fiscal note produced for LB337. The provision in Section 1 of LB337 requiring that the, in quote, Director of Administrative Services shall include in the annual budget report on agency budget request, end quote, certain information further outline paragraphs A through F of LB337 conflict with current law and our biennial budget process. There is currently no annual report on agency budget requests as referenced in Section 1. Also, the specific requirements and reporting of the information in paragraphs E and F of LB337, especially as part of an annual report, will require additional work. This will be required of the individual state agency boards and commissions or the Department of Administrative Services. This is referenced in the fiscal note prepared by the legislative fiscal analysts for LB337, but no specific cost is calculated and provide it with regards to these new requirements of LB337. The biannual budget instructions issued to state agencies, boards, and commissions specifically require reporting on the use of federal funds to the Governor and the Legislature. The information provided in response to these instructions by state agency boards and commissions is published as part of their individual budget requests and posted on the state budget division website. The Department of Administrative Services State Accounting Division also publishes the Nebraska annual budgetary report which includes information on prior year appropriations and expenditures, including federal funding appropriations. Section

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

81-132, along with 81-1113 and 81-1113.01 are the current state laws that form the basis of our current biennial budget instructions. Current law specifically assigns responsibility for preparation of budget instructions and forms to the state budget division and the current state law requires a state budget division to share a draft of those instructions with the legislative fiscal analysts, meet with the legislative fiscal analysts and discuss changes to proposed forms, share a final draft, and include any additional instructions and forms provided by the LFA. A quick review of the current instructions, which I have had distributed to the committee, will reveal that we require extensive additional reporting related to federal funds and federal grant awards. Purpose of the grant, grant characteristics, use of grant funds, grant future outlook and impact of potential reductions. Six years of historical, current, and future information regarding receipts and expenditures is included in these instructions and reports. In addition, Section 81-1125.01 provides for the publication of an annual budgetary report by DAS, State Accounting Division. This report includes a schedule of budgeted and actual expenditures by agency, program, and fund type, including federal funds for the prior fiscal year. Additional information is included for at least four prior fiscal years in that report as well. There is significant information currently being reported regarding the use of federal funds by state agency boards and commissions. Some of the provisions of LB337 can be accomplished within the existing reporting processes, but others are problematic and not easily accomplished, more specifically, at the level of detail specified and on an annual basis as provided for in LB337. I am available to work further with Senator Stinner and your committee to improve our existing state reporting processes or its content without the need of additional legislation. Or alternatively, if additional requirements are to be legislated, I remain available to assist with language that will provide for a more efficient and effective implementation. Thank you. Are there any questions?

BREWER: Yes, I'm sure you will have questions, Senator Blood.

BLOOD: Thank you, Chairman Brewer. And thank you for your testimony. I've actually been reviewing your testimony from LB611.

GERRY OLIGMUELLER: OK.

BLOOD: And if I heard this testimony correctly, it sounds like it jives with what you said last time. So if I understand you correctly, I'm going to put it in your own words, let me know if this is still

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

the truth, that our current law provides a structure for this to change without meaning to legislate the content of a form.

GERRY OLIGMUELLER: Yes.

BLOOD: All right. Thank you.

BREWER: All right. Let's follow that question up. So, have you and Senator Stinner spent time working through this so that the communications lines are there? Because why would you bring a bill, or would there be a controversy here if the current rules exist where it can be done? I guess I'm kind of at a loss.

GERRY OLIGMUELLER: I work with Senator Stinner from time to time with regards to the state budget and certainly willing to work on this issue specifically if there's a desire to codify something in the state law. But as indicated in response to Senator Blood's question, I think we can get information as needed as part of the state budget process through our current instructions and forms as well. So there is a policy choice. It certainly is in front of the committee for consideration.

BREWER: All right, we got you on record with that. All right, additional questions? Seeing none, thank you. All right, additional opponents? Those in the neutral position? All right, then, Senator Stinner, come on up. Please, have a chair, make yourself at home, relax. You may close.

STINNER: I would-- I just want to bring up what the total budget is, because we spend so much time talking about General Funds. General Funds total is about \$4.5 million. Your total budget is \$10.8-- or billion, excuse me, \$4.5 billion General Funds. Cash is about \$2.4, almost \$3 million in federal funds. So it's an important place. And I can tell you that Gerry and I have talked and we can work through an administrative process. What he and I have talked about and we differ in, I want to codify something so that as budget directors turnover, as fiscal people-- fiscal officers turnover, we've got something that codifies that easily obtainable. Right now, yeah, there is information in there. HHS has 99 programs. Ninety-nine federal programs, and we go through a book yea big, wouldn't it be nice if we could access that because there's grant programs, there's programs that will sunset, there's programs that are optional, there's programs that are mandatory. There's programs, frankly, that you can't cut, period, because what it will do is it-- it will cut that-- that-- that spend,

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

that fed reimbursement permanently. So you need to understand those things when you're going through the budget. Maybe you're better than I am at digging through all of that stuff. I have tried for four years and it's an exhausting effort. It's probably in there; I have yet to find all of the information on all of the programs that I need to talk about and I need to have access. That's what we're trying to get done. We're also trying to get a contingency program. So if we have a cut from the federal government by 10 percent, which is not uncommon, we know what-- what-- what's our fallback position, what's-- what are we going to do. HHS is really my target, right now, and that's \$1.8 billion, \$2 billion we get in federal money for HHS. And I'm concerned about it. Concerned about what programs are going to be left; what changes in programs are, that's-- that's my position. That's what I have to worry about as Appropriations Chair. And I will work with Gerry. We have a good working relationship. But this, he and I just don't agree on a couple of these issues, so.

BREWER: All right, Senator Blood.

BLOOD: Thank you, Chairman Brewer. And, Senator Stinner, I have to say that you have the best brain when it comes to numbers and I have admiration for you. But I do-- I have a question, and you may not know the answer to this, but it came up-- came to mind when you were talking. What happened to the state in 2008 when we actually did lose federal funding and we lost grants, and-- because I know at municipal levels we lost state funding and federal funding. What happened to the state at that time?

STINNER: You know, I-- I don't know anything about 2008. I know that during the crisis, we actually got, I think, 2009-2010, and maybe Gerry can help me on this, we actually got about a half a billion dollars from the federal government to help-- help in that process when they went in the tank. Don't remember or recall anything back in 2008.

BLOOD: I have no concept of time. I might have the year wrong.

STINNER: I've been just kind of focusing in on-- we had a couple programs cut this year. Our tradition has been if federal program is cut, we don't replace it with state dollars. That's generally what we do.

BLOOD: Right.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

STINNER: But we've had some exceptions. We've had some exceptions.

BLOOD: But hasn't that been the concern across the country with this particular type of bill though is that they're-- they are worried about it.

STINNER: The concern I have is-- is more in the have-to-programs. In the have-to-programs are right in aid to individuals. That's that 99 programs that you have that you're sitting in HHS. If they get cut back, or if they get block granted in, in some form, and they only allow you to go up 2 or 3 percent; and that's been a proposal. You know, now what do we do? We just went into Medicaid expansion and we've got-- we've got a lot of facts and figures to uncover and we need to know specifically about every program. And what programs, frankly, that are out there that we haven't accessed yet either. So, I mean, it cuts both ways--

BLOOD: Fair enough.

STINNER: --on the knowledge. Anyhow, that's-- that's what we're trying to get accomplished here--

BREWER: All right, so--

STINNER: -- to codify something that last over a long period of time, which is a reporting mechanism that makes it easier to access the information and make decisions. That's-- that's the bottom line.

BREWER: And the fiscal note part of this that came up, was our numbers there that didn't jibe with what you thought there should be?

STINNER: Last time-- last time we had a fiscal note because we were asking agencies to do it, so HHS came in with the fiscal note. This time we're doing DAS.

-----: You got a fiscal note from DAS?

STINNER: I didn't think we had one from DAS. And there may be some coming. I, you know, it seems like we're a little bit behind in fiscal right now.

BREWER: I-- well, I guess, that will be a question we have to sort through. But, essentially, this will give you more visibility so you

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

can better manage the resources of the state from the position of appropriations or budget management.

STINNER: That would be my-- my position.

BREWER: OK. Additional questions? All right, seeing none, thank you for your testimony. And let's see, LB337, we have one proponent, no opponents, and two in the neutral position. And that brings us to LB386 is next, and a returning customer. Senator Erdman, welcome back.

ERDMAN: [INAUDIBLE] kind of short, I was in the back.

BREWER: [INAUDIBLE] say that. Welcome back to Government, Military and Veterans Affairs. And you may begin on LB386.

ERDMAN: Thank you, Senator Brewer, great to be here. Thank you, Committee, for hearing LB386. My name is Steve Erdman, I represent the 47 District; 10 counties in the Panhandle. My name is spelled S-t-e-v-e E-r-d-m-a-n. I have a couple of handouts if you would. This bill today is very simple, as you see in the green copy. It's highlighted in a couple areas there. It's very simple what the bill is doing. Currently, the state law allows local units of government to have up to 50 percent of their annual budget in the form of a cash reserve. What this bill does, it reduces that to 50 percent of their annual tax asking. And so I have submitted a couple of documents for your review. The document with the numbers on it are several of the entities that collect local property tax. I didn't do an exhaustive study of all the people who collect property tax. These are similar to the ones that I presented two years ago when I did this bill. And I would like to draw your attention to the front of that handout where it says "colleges" at the top, property tax recap college. Those are the community colleges in the state. I'm here to report that the last time that we looked at this there was only one of those colleges that was at 50 percent, and today-- or there is more than one, today there just one. But as you'll look, and I'll draw your attention to the one at the bottom, it says Western Nebraska Community College. It happens to be the college that is in Scottsbluff, in Senator Stinner's district. It is my alma mater. I graduated from Western Nebraska Community College. If you'll notice, their annual tax asking is \$12.785 million. And their cash reserve currently is at \$16, 307,000, which is equivalent to 128 percent of their annual tax asking. So in this regard, if this bill was put in place, they would have to reduced their-- their cash reserve down in that 6.4, 6.5 million dollar range. And you say, how will they make it if you reduce their cash reserve

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

that low. Well maybe you have been sitting in the Chamber and heard of an entity that has just 26 days of working capital in their bank account. That happens to be the state of Nebraska. And I'll give you this example: when I became a county commissioner in 2005, one of the first things I asked when I arrived there is how much cash reserves do we have? The answer was zero. And the answer was zero because our county assessor was doing illegal things and not changing our value accordingly. And so we could not tax enough with our mill levy limit to gain enough dollars to have a reserve. We functioned for three years on no cash reserve. So I'm here to tell you that an entity, a state organization, or a local unit of government can function on a lower cash reserve than two or three years of cash reserve. And so if you turn over the back sheet of that, the backside of that document, you will see that those are the ESUs in the state and they are similar to the community colleges. There's two of those that are 50 percent or less, but you will see, and I will draw your attention to number 13, Western Nebraska ESU 13 in Scottsbluff, annual tax asking is \$1.634 million. Their reserve is \$4.955 million. That's over three times their annual tax asking in a reserve. When you talk to people about why they have a cash reserve of that magnitude, they say things like: we may have an emergency or we may need to build a building. I thought that's what bond issues were for. And so you will see coming up behind me there will be people who will testify that they cannot function with a cash reserve that low at 50 percent of their annual tax asking. They will tell you that. When you asked the question: Have you ever gotten below 50 percent in your-- in your-- in your cash account? It will be hard pressed to find somebody who says they have. And there may be-- there may be, I haven't talked to everyone. I thought it was very interesting when I received the fiscal note, and I think Senator Stinner alluded to the fact that the fiscal notes have been a little slow coming this year. I just received the fiscal note yesterday. I have-- I have not ever-- I have never seen a fiscal note that included information from a local unit of government. And if you will turn to that fiscal note and take a look on the second page, the third page, there is a statement there, and in the middle of the page, it describes what will happen to the cash reserve for the city of Lincoln. As it says in the middle paragraph it says the city of Lincoln cash reserve on hand is \$40,914,000; and the city levies \$71,664,000 annually. So one half of that would be \$35,832,000. So the city would have to reduce their cash reserve by \$5,082,000. I'm not sure exactly why they asked the city of Lincoln and I'm sure you'll probably hear from the city of Lincoln and some other people. But the point is, I believe that the taxpayers can better understand what to

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

do and how to spend their money than to have a local unit of government collect taxes to put in an account to draw interest at 2 percent, 2.2 percent, or whatever in paid or wherever they put it. And so what I'm asking today is to make some common sense decisions about how your taxes are handled and managed, and to leave some of the money in your pocket so you know-- you better-- you know better how to spend than they do. So when we go onto the floor with this information, I think it'll be very interesting to those on the floor that are interested in property tax relief, because the question you have to talk about or ask is how did they get 303 percent cash reserve? How did they get that? What do they do to do that? And some of the information is presented. And I give you a letter from Terry Jessen, that was a second document I sent. Terry Jessen, some of you may know Terry, Terry is my CPA and he did some research for me on this and he has been to numerous budget hearings and he said basically what local units of government do they work it backwards, so they'll have a reserve to add to their cash reserve. So what I'm asking today is that you advance this to the floor and we make a decision about how much cash is held in reserve by those local units of government that collect taxes. I'm not asking to restrict what they do with their money, I'm asking that they would collect the money that's appropriate and no more. And so that's kind of where we're at on this. And you will hear today from people, I'm quite confident, you'll hear from people today that are opposed to this. And every one of those will be people who receive tax dollars. You won't hear from people today who pay tax dollars. So who are we looking after? Are we looking after those who receive the dollars or those who pay? Well, I'm telling you here today I'm here representing those who pay. And so I'm asking you to advance LB386 to the floor. Thank you.

BREWER: Thank you for your opening. Questions on LB386? Senator Blood.

BLOOD: Thank you, Chairman Brewer. Thank you, Senator Erdman. I first want to start out by saying I have had multiple fiscal notes where they've been distributed and the municipalities had the option of responding; some do, some don't, so this is not unusual. So kind of put that plug in there. So I thought--

ERDMAN: I didn't say-- I didn't-- I just said I have not seen that.

BLOOD: I just wanted to let you know that it does happen.

ERDMAN: OK, thank you. Thank you.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BLOOD: So they're not just picking on you.

ERDMAN: Thank you.

BLOOD: With that said, I have a bunch of questions, so I hope I don't tire you out today. But this brings up a bunch of questions in my mind. So one of the things coming from a municipal background that comes to mind right away is Nebraska Advantage Act. And do you know what one of the requirements are as if you participate in that program?

ERDMAN: No. Our communities aren't available to apply to the national-- Nebraska Advantage Act.

BLOOD: So the area that I'm from, most definitely does partake in it. In fact, I think Nebraska's youngest city, La Vista, takes advantage of that. It's the one that first one that comes to mind. So they have to plan for unpredictable reductions in sales tax distribution from the state. So that means that if they don't plan accordingly, especially since they are also one of the fastest growing communities, they're screwed. So that's one red flag that I see. And then the other concerns I see is I do look at unseen emergencies. How do they-- I look at Bellevue. Bellevue and we're by the Missouri River. And we know every few years it's going to flood. And unfortunately, NEMA twiddled it's thumbs for two, three years, we never got paid. If we hadn't had a cash reserve, the city of Bellevue would've been in trouble. How do we remedy things like that? If you're going to cap stuff off because you-- because supposedly we as the state Legislature we know best and how much money they need.

ERDMAN: First of all, you mentioned that if you get a reduction from the state in funding, did I understand that part right?

BLOOD: What you mean a--

ERDMAN: If you get a reduction from the state in funding, you mentioned in your comments or your question, is that what-- is that what you asked, what if you get a reduction in state funding, will you-- what will you do then?

BLOOD: In the sales tax distribution.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

ERDMAN: OK. This is not sales tax. This is not a distribution from the state. These are property tax collected from a local property taxpayer.

BLOOD: And I understand that. But I'm saying though that coming from the east part of Nebraska, and I always hate to do this because I know it kind of creates an us against them kind of thing, but because we have so much growth going on, and we do take advantage of things like Nebraska Advantage Act, we have to make sure that we plan for unpredictable things such as losing sales tax, like when Amazon kind of hit the road running and the state budget was in disarray and you know they need to know that they have that money because, and again, I'm going to go to eastern Nebraska and what I know from this part of the state. Lincoln, Omaha, Bellevue, Papillion, La Vista, they all do strategic planning.

ERDMAN: Good.

BLOOD: So If they have the money in reserve, they do have a plan for it. It isn't just, hey, we've got this extra money, let's just hold onto it for giggles. Would you say that that's true?

ERDMAN: Do they-- do they draw down past 50 percent of their annual-- of their cash reserve and on an annual basis?

BLOOD: On an annual basis?

ERDMAN: Have you seen them ever draw down past 50 percent?

BLOOD: I-- I-- I don't know if they've ever drawn down. I know that they plan and they utilize the money accordingly; that it's not just there for no purpose. That's what I'm saying. So that might be a question you want to ask them since some of them are in here.

ERDMAN: Right.

BLOOD: So, what about maintaining a positive cash flow? Again, I'm putting on my municipal hat. It just makes it easier for me if you can answer these questions. So as you talked about sometimes things happen and money is short and they have that extra cushion so they know that people are going to get paid and the people are going to get their streets plowed. For Instance, if we have a really hard winter or we have a fire or-- why-- why should they not be allowed to have a positive cash flow above that 50 percent?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

ERDMAN: Well, I would hope that the cities have enough management to figure how to do this. Let me give you another example. When I was county commissioner, I just told you I had zero cash reserve. We had snowstorms, we had blizzards that we had to clear the roads. We had unexpected expenses and we figured it out. We made cuts, we made do with what we had. And I don't know that there's any city that has had an opportunity or had the chance or needed to draw down past 50 percent. Until I hear somebody come up here and say we used all the cash reserve or we drew down below 50 percent, I don't know that any of that makes any sense. So we elect these people to make decisions, common sense decisions how to manage their money, figure it out. And if you can't make it on a 50 percent of what you asked for annually in taxes, we need to elect different people.

BLOOD: So what is the population of the county that you represented?

ERDMAN: Say that again.

BLOOD: What was the population in the county that you represented?

ERDMAN: 5,000.

BLOOD: Five thousand people. And how many-- how much would you say in roads do they have to plow? What was the-- like 5 miles, 10 miles, a hundred miles?

ERDMAN: 967.

BLOOD: So again, I think this is an urban/rural thing. So what about bond ratings? I mean, one of the things that I heard you say is that if they need to get something done, then they take it as a bond issue. Doesn't it just create more debt for the taxpayers?

ERDMAN: Is it better to take money from somebody in the form of taxes and put it into account without asking them if they can afford to pay it? That doesn't make any sense to me at all.

BLOOD: What do you mean without asking if they can afford to pay it?

ERDMAN: If you've got a bond issue, somebody is going to pay on it-- vote on it.

BLOOD: What do you mean without asking them if they can afford to pay it?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

ERDMAN: I've never received the notice from anybody in any-- any taxing entity that sent me a note and said we're going to raise your taxes; can you afford to pay that? No, never have. They just send me notice and say you owe this, pay it, so we can put it in a cash reserve and hold it in case we may need it.

BLOOD: There's a lot of things I can answer to that, but I'm going to keep going on to my questions. So doesn't having extra cash eliminate short-term borrowing? Again, go back to creating-- it feels-- I feel like when you cap things, you're creating these secondary issues for the bigger municipalities. That when we have a crisis, as opposed to a county of 5,000 people, it's a much more expensive crisis usually, because we have more-- more infrastructure. And unfortunately, too, the east end of the state our infrastructure is really, really old. So sometimes when we have a crisis, we're screwed.

ERDMAN: Well, Senator Blood, in all due respect, you may have a million people and we have 5,000, but percentagewise it's very similar. And those 5,000 people are very important. Just because we don't have a million, don't make us insignificant. And so we make decisions based on what's best for those 5,000 people and they need to make decisions what's best for their million. And as a county, we could not borrow money. I don't know, maybe your cities can borrow money, but we could not. It was a rigorous process to go through to get to borrow money. So we made a decision not to go through all that. And so we made-- managed with the money we had. And we had very little reserve and we made it. They have a better reserve today because I left them a better position. But my contention is, they collect this dollar and they put in a cash reserve for, maybe I'll need it, maybe I won't. And I see the building projects going on that they could use cash reserve and they pass a bond issue to pay for those and they leave the cash in the reserve. Those are-- those are issues that I think need to be dealt with and that's what this bill does.

BLOOD: So, and I know I'm being a troublemaker today and I apologize for that. But I'm really having a hard time getting my brain wrapped around this. So, I mean, when I hear you say this, it almost is like you're intimating, because you just said it, maybe they need it, maybe they don't. These municipalities-- and hopefully the League is here to speak on this today, do strategic planning. Isn't it whether maybe we'll need it, maybe we won't, it's that, OK, so we know that if we reach this point and there's a reduction in sales tax distribution that we better have this much of a cushion should we have a natural

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

disaster, should we continue with the economic development plan that we have that we can maybe cut back a little bit on because we don't want this to be a bond issue because we have the money at hand should we need it. I mean, you're telling us to use common sense legislation. Isn't that what they're doing?

ERDMAN: So, if you collect money to pay a bond or you collect money put in a cash reserve, is it still tax dollars that was in somebody else's pocket first?

BLOOD: And isn't that how we--

ERDMAN: Isn't it the same thing?

BLOOD: Isn't that how we pay for things is taxes? I don't know about you, but I like to have my streets plowed, and I like to have police and fire come to me in a timely manner, and I like to make sure that they're trained, and I like to make sure that they have equipment. Isn't that what we pay taxes for?

ERDMAN: Yeah, I agree. And I'd like Lincoln to use a little bit that \$5 million extra to kind of fix their streets.

BLOOD: I'm not going to participate in that. But I guess the concern that I have is that you're implying that people have been bad stewards. And I did a lot of research before we came to this meeting today. I'm not necessarily seeing it. So maybe you can bring me information later that shows me that people are being bad stewards with this money.

ERDMAN: I didn't say they're bad stewards. I said they have an excess cash that they don't need.

BLOOD: Because you were part of their strategic plan and you know that they don't need it?

ERDMAN: This may shock you, but as Morrill County, we did strategic planning even though we had only 5,000 people we did that too.

BLOOD: Doesn't shock me at all. So if you participate in strategic planning, you know that there is a plan for that money.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

ERDMAN: We never plan for that kind of expense. We never put that kind of money in a cash reserve. We made common sense decisions. Basically what we did, is we spent that tax dollars like it was my money.

BLOOD: And I don't feel that they're not doing that.

ERDMAN: And I don't know that that's the case all the time.

BLOOD: And that's fair enough. And I get that that's your impression. I just-- I have grave concerns because I don't see that. I see that in other states, in the bigger cities, but I don't see that. But I do appreciate the fact that you've been very fair and honest with me in sharing the information.

ERDMAN: And I appreciate your position; I understand it.

BREWER: All right. Additional questions? Senator Kolowski.

KOLOWSKI: Thank you, Mr. Chairman. Senator, you have listed here six community colleges on the sheet that you gave us. Is that correct?

ERDMAN: Yes, sir.

KOLOWSKI: And you talked to the leadership of each of those community colleges and asked them the questions that you're sharing with us today, as far as your opinions?

ERDMAN: I have had a conversation with the president of Western Nebraska Community College in the past.

KOLOWSKI: Have you talked to the other five as well?

ERDMAN: No, I have not.

KOLOWSKI: Would that be helpful?

ERDMAN: In what way?

KOLOWSKI: Information on what they're thinking about using the money for, or how they're handling their expenses in their particular college?

ERDMAN: Well the-- to answer that maybe this way, the cash reserve that I see now as opposed to what it was three years ago, and most, not all, but most of those situations is greater than it was then. So

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

I would assume whatever their intention was to use the cash reserve must not have been applied because it's still there.

KOLOWSKI: That's your opinion. But you haven't talked to five of them.

ERDMAN: No, I said I hadn't.

KOLOWSKI: Would it be helpful to do that?

ERDMAN: I don't know whether it be helpful.

KOLOWSKI: For consideration. Thank you.

ERDMAN: Thank you.

BREWER: All right. Well, while we've got you here, let me run one by you. I picked out just one of the towns, and again, we're not talking about Gage County here or any of the issues that come with that, but just Beatrice, They're \$1.14 million with the cash reserve at \$4.359. That's 382 percent. So what you're wanting is to have them still have a reserve.

ERDMAN: Correct.

BREWER: It's just the reserve would be in the vicinity of 50 percent--

ERDMAN: Of their annual taxes.

BREWER: Half of their annual costs to do business.

ERDMAN: Right.

BREWER: And, I mean, it-- it is kind of interesting run down the different towns and seeing how it varies as much as it does. All right, additional questions? Oh you're just-- I thought you were leaving.

BLOOD: Moving.

BREWER: All right. Seeing none, you're going to stick around for close?

ERDMAN: Yes, sir.

BREWER: Good. Thank you. All right. We'll start with those proponents of LB386. Proponents? We will transition to opponents. Yeah, come on

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

up here and testify and find a seat up front and I'll know how many to plan on. Welcome to Government, Military and Veterans Affairs.

DOUGLAS KINDIG: Thank you, Senator. And to rest of the committee, good afternoon. I'm Mayor Douglas Kindig, K-i-n-d-i-g, Mayor of the city of La Vista. But I also am speaking on behalf of the United Cities of Sarpy County today, which include Bellevue, Gretna, Papillion, and Springfield. We collectively represent over 90,000 residents of Sarpy County. And, yes, I am here today to voice strong opposition to LB386. Can I mentioned before I start that I am a care keeper of our citizens taxes and I am put in charge of spending those taxes. It may surprise some, I'm also a taxpayer. So I watch it from two levels, not just as the spender, but as the payee. I won't disagree with Senator Erdman that we could function if this bill was passed. But I'd hoped today to be able to explain to you why I don't believe that would be sound financial planning. The Statement of Intent of LB386 identifies that the purpose of the bill is to correct the relationship between taxes levied and cash reserve. It further states that the bill intends to hold governing bodies accountable for the ability to build up exorbitant cash reserves which exceed 50 percent of their yearly total tax asking ability. While we understand the need to resolve the property-- of property tax relief, this measure is not an appropriate action. As local government officials, it's our responsibility to ensure that our financial obligations are met year round and that significant fluctuations are avoided. Cities maintain reserves for a number of reasons including anticipation of unforeseen emergencies or hard times, storms, loss of a major employer, major retailer, ensuring adequate working capital for cash flow and contingency purposes, eliminating short term borrowing, achieving higher bond ratings which in turns lowers our interest cost on the bonds that we do issue, reducing insurance premiums by making us self-insured. Again, sound financial practice for our taxpayers. And, of course, maintaining positive cash position at any time. Currently in Nebraska, economic development incentive programs such as LB75 and Nebraska Advantage necessitate that we-- that the impacted cities plan for significant, and at times, very unpredictable reductions in our sales tax distributions from the state. In La Vista, for example, since 2014, the incentive programs have impacted La Vista to the tune of \$10.3 million. That's \$2 million on an average a year. In order to ensure stable service, delivery, and maintain financial strength during these times, adequate reserves are imperative. According to the Government Finance Officers Association it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

and to ensure stable tax rates. These are varying philosophies regarding how much is enough. However, GFOA recommendations do not correlate fund balance or cash reserve to property tax collections. GFOA recognizes that each government has its own unique set of many variables. Furthermore, measures should be employed within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis on the level of fund balance at any one time. Over the past 20 years, the Legislature has implemented budget lids and levy limits, restricted revenue growth, placed restrictions on municipal occupation taxes, and has eliminated state aid. We've done our best to operate within those constraints despite the fact that our infrastructure continues to age, our communities are growing, and we're obligated to provide essential municipal services. Not only will the passage of LB386 impair our ability to adequately plan for and provide municipal services our citizens ask for, it's an impediment to mitigating the risks associated with changes in revenue due to economic and local market conditions. I'd like to end with really the number one thing that we put in our strategic plan, we don't govern and plan in La Vista just for one year. We govern for at least five years out. By limiting our cash reserves, you are restricting us from doing that. I think I've got some figures, if there's time, if the senators would like to have it, that I can show where stable cash reserves will actually control property taxes. With that, senators, I appreciate the time today. And I'd be willing to answer any questions.

BREWER: Thank you for your testimony. Senator La Grone.

La GRONE: Thank you. Mr. Chairman. Thank you, Mr. Mayor, for being here, and thank you for your service to Sarpy County. Just real quick, you said something that interested me and I just was hoping you could expand on it a little bit. Could you talk a little bit more about the relationship your cash reserves to your debt ratings and thereby the cost of future bonds?

DOUGLAS KINDIG: Yes. For you that aren't aware, 84th Street, it's our major redevelopment project. It's a one-mile stretch of our city that Wal-Mart left and deteriorated, basically, to a ghost town. We're right now in the process of, along with a private developer, of-- of making that a vibrant, to be honest, taxpaying member again. It's going to create many jobs, it's going to help the income taxes, it's going to be a great project. We were able to pass the half-cent sales tax three, four years ago. We've been putting that money away to help pay for that project. And we're also going to need additional monies

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

to help facilitate that. By having a healthy cash reserve, when we go out to bonds, Moody's will tell us that our rating is affected by the amount of cash reserve we have. In La Vista, we have a good Moody's rating. We've also been told by Standard and Poor's that with the larger cash reserve, which is basically our collateral for those bonds along with property tax, that we're able to get a more favorable interest rate. So when we look at cash reserves, and I-- and I-- does that answer your question on the bonding, Senator?

La GRONE: Mostly yes. So if that's the whole story, then yes.

DOUGLAS KINDIG: And maybe another component of that, I know this is a novel idea and I know my daddy wasn't the smartest man in the world, but he was a pretty wise man, and first time he gave me an allowance of 50 cents for raking the yard, he said don't spend it all in the same place. Well, what did I do? I went out to the candy store and I bought everything and didn't-- didn't have anything left. The next weekend my friends wanted to do something, I went to my dad and he said you were supposed to put that away. He said I'll loan you the money this time. And he did. What we're trying to do in La Vista, we're trying to pay as we go. Now if we can build up the cash reserves and we have to buy a \$350,000 sewer pump truck, is it smarter with our taxpayers' money to pay cash for that? And Senator Erdman is right. We're earning interest on it at the same time. Now I haven't been in banking very long, but I think they call that an investment. Or would the taxpayers rather have us go out to bond and borrow that money? I think we're making the sound financial decisions of being able to save that money and pay as we go.

La GRONE: Thank you. Thank you, Mr. Chairman.

BREWER: Senator Blood.

BLOOD: Thank you, Chairman Brewer. It's nice to see you again, Mayor. Sounds like you're getting a little cold or something.

DOUGLAS KINDIG: A little cold, yeah.

BLOOD: I'm sorry. I think you were sick the last time you were here. Stop that. Yeah knock that off.

DOUGLAS KINDIG: I'm looking for that sympathy from the board to be honest. But no.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BLOOD: It doesn't work in this committee.

DOUGLAS KINDIG: It doesn't work. OK, OK.

BLOOD: I'll tell you that upfront. So La Vista has come a long way since the House of Nines, and I almost wish that we had a little booklet to tell everybody where you guys have started from and where you're at now. And I only know because I ran your chamber of commerce for years, so. So, one of the things that you talked about that you really didn't get a chance to share is that you have numbers on how this will ultimately impact you. Do you want to go ahead and address that?

DOUGLAS KINDIG: Yeah. And to keep it pretty simple, not maybe to get too deep on it. I'm going to concentrate, if you don't mind really, on Nebraska Advantage and the impact that's had on us. Many of you have heard me talk about the transparency of Nebraska Advantage, and hopefully later in the session you'll be hearing me again on that. La Vista received a surprise a few years ago of \$2.4 million that the state was going to hold out of our monthly sales tax receipts to pay a Nebraska Advantage credit. La Vista went five and a half months without sales tax. At that time, we've gotten some changes and we-- we thank the Legislature for the transparency that they've provided so far, and we were able to start to look at sales and use tax receipts and we put money away in anticipation of future tax credits. Now first of all, I want everyone to know that I'm a proponent of the incentive programs and I understand that these taxes wouldn't be in our coffers if that business hadn't come in. But for financial planning to come up with \$2.4 million dollars, that's a hit. So, we've started to put money away so when we get that letter from the state now that says you have a \$1.8 million dollar credit, we're able to access that fund and actually pay ourselves then for the sales tax that month. That's what we use a big part of our-- of our cash reserve for. In 2020, we estimate to have \$4 million set aside strictly for Nebraska Advantage. We have estimated, as I said, the last five years, \$2 million a year. So we set aside approximately \$1.6, \$1.8 in anticipation of those future credits. If you were to leave that at La Vista's rate today on property tax and only allow us to keep 50 percent, our property tax is a shy over \$9 million. That means we could have \$4.5 million. We know that we're going to owe tax credits in the future. So we're going to keep that four there because that's a smart thing to do. Right? That would leave a city the size of La Vista, 17,000-plus, with a valuation of over a billion dollars, \$500,000 in our cash reserve if this bill

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

was to pass. Now what do you think \$500,000 pay for? A 50-mile an hour wind come through and tear our city up. One store, when Wal-Mart left, we have-- we estimate we lost \$650,000 in sales tax revenue. The cash reserve we have, Senators, isn't a wasted fund. We don't use it for frivolous things. We use it for our strategic plan. We use it for what our citizens want, because we include them in our plans. So I don't see it as a waste in our city. I don't see it as ripping the taxpayer off. I see it as a wise investment of the taxpayer money.

BLOOD: I have one more question. So, Sarpy County, I think is still the fastest growing county in Nebraska. I'm not sure. I think it is. So because we are the fastest growing county, and you're representing the United Cities of Sarpy, so I'm just kind of throw it at you right now. Sorry to not give you a warning. How much development is going on right now in, say, Papillion?

DOUGLAS KINDIG: I don't know everything. I know that Facebook is estimated at over a billion dollars and the other data center that's planned in Papillion's ETJ is going to be over for a billion dollars.

BLOOD: And what has to go in order for us to keep bringing these big businesses to Sarpy County?

DOUGLAS KINDIG: Well, if you don't start with infrastructure, Senators, you're never going to get anything, because if it's a dead end road, guess what, nobody can get to the other side. So infrastructure, obviously. We have to-- we do a lot of long-term planning in all of our departments. You have to increase your library services; you have to increase your first responders. You may have to buy that extra truck to cover the lane miles so that we can keep the roads clear during snowstorms. We do employee forecasting. So when we put money away, I want to go back to my for opening statement about we don't plan for one year today, we plan for five years out. And the reason that this can help with property taxes is because it stabilizes it because when we can use our cash reserve and we run into the catastrophe or we run into the unknown, if we didn't have the cash reserve, what's our other choice? We can't control sales tax. We can raise property taxes. That's the one thing that I don't think this legislative body wants us to do. So, I will disagree very strongly with Senator Erdman, that I think this very well could raise property taxes by limiting the local officials to be in control of their own money. And you know what, I've been lucky enough to serve as mayor for 14 years. And Senator Erdman made a comment that he's never had an opportunity, and it's never been told when his taxes have been raised.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

Well I can tell you in La Vista, and you know what I think every other city and village in the state of Nebraska, we publish our public meetings, we hold at least three of them whenever we're discussing our budget or tax increases. So just because the citizen doesn't know we're doing it because they don't read the paper, they don't watch our billboards, they don't read our quarterly newsletter, you can't punish us because they don't look for the information. We've never increased taxes without the public knowing about it.

BLOOD: And so one more. And I can only think of the most recent one, so Bellevue severe flooding twice now. I mean I'm just talking like the last 5 to 10 years; tornado two years ago?

DOUGLAS KINDIG: Um-hum.

BLOOD: That bad tornado. I know the neighborhood-- our neighborhood got hit and the neighborhood next to us was flattened. And so what happens if you don't have that cushion and we work with NEMA and it takes them three years to pay us. I mean can we-- can we really survive without that extra money?

DOUGLAS KINDIG: Municipal government's quite easy; or, I guess, it's quite easily explained. We provide services. We have a lot of employees.

BLOOD: And work [INAUDIBLE].

DOUGLAS KINDIG: We don't have a whole lot of ways to reduce taxes unless we cut services or we cut employees. So I don't know what Bellevue would have done. But I can tell you where the easy pickings are when it comes to that. You cut library hours.

BLOOD: Right.

DOUGLAS KINDIG: You cut back on mowing your parks, you cut back on your recreational programs. Maybe you cut back on your DARE program.

BLOOD: Or you don't hire a new police person, or you--

DOUGLAS KINDIG: Yeah.

BLOOD: Yeah. So the concern that I have with this is that if indeed a municipality-- and I always talk municipalities, because that's what I know. If municipalities do strategic planning, I know in Sarpy County you say five years out, but really it's truly 20 years out, because

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

you have a vision that you're working towards. And every time you meet on a yearly basis to tweak that business plan, because it's a living, breathing document, you are looking as the same for the community colleges, and everybody that does these types of budgets, is that you have a goal in mind, and how are we going to meet that goal in 20 years? Isn't, hey, I think I'm going to hold onto this money for giggles. It's that, OK, if we put this money aside when we get to this five year mark, we're going to be able to pay for this thing. And then after we pay for this thing, then we have to rebuild this next thing. [INAUDIBLE] that's right. I mean, I just-- I want-- strategic planning is such an important part of Sarpy County's communities. And-- and-- I put it toward community colleges, since they're all sitting here to my right, that I don't understand how they can function without that. All right.

DOUGLAS KINDIG: Our cash reserve fluctuates, senators, we got down to a point to where the way it's-- the way it is right now is your cash reserve, we're allowed to have 50 percent of our operating expenses; and I think Senator Brewer, you had said the operating expenses, that's not what this bill does. It limits it to the personal and the property tax. Our operating expenses are about \$18 million a year. That 50 percent, we can have up to about \$9 million a year. OK. We think that's pretty good. Now when you take out Nebraska Advantage money and things like that, we're running somewhere in La Vista about 17 to 28 percent. It fluctuates. The GFOA report doesn't give you specific percentages, but it does strongly recommend that you have at least two months, if not three months, of your operating budget in cash reserve. Thank you, Senator.

BREWER: All right. Additional questions? I just got one here. When you were talking about self-insuring, give me an example of how you self-insure.

DOUGLAS KINDIG: Oh my gosh, I knew I should have brought my finance director, Senator. I will provide you that information. I'm afraid I couldn't give you a clear answer on that.

BREWER: That's all right.

DOUGLAS KINDIG: I'll provide that to the committee.

BREWER: All right. No additional questions. Thank you for your testimony.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

DOUGLAS KINDIG: Thank you.

BREWER: Next opponent for LB386. Sir, welcome to the Government, Military and Veterans Affairs Committee.

RANDY SCHMAILZL: Thank you, Senator Brewer. Randy Schmailzl, R-a-n-d-y, S-c-h-m-a-i-l-z-l; college president, Metropolitan Community College. I'm here today in opposition of LB386. And I'm also here to talk about Metro and talk about our reserve which is the center of the bills. This is the general fund reserve as we call it. It's our cash reserve for operations and maintenance at the college. It's not the cash reserve for building, that's our capital reserve. So we're here to-- to look at the employees, the equipment, what it takes to run the college. Metro annual general fund budget is about \$113 million. And of that \$113 million, 47 percent is from property tax; 26 percent is from tuition, and 25 percent is from state aid, and 2 percent is from income off of our cash reserves, or other income from grants, from federal grants and state grants we receive. So our current situation is we, starting 10 years ago, went into a strategic plan to decide, you know, what's going to be the landscape of education in our four-county area in Omaha in the future. And it was a solid yes in that there's not going to be many to provide education in the trades, higher education, skilled education. You got businesses that could do that and you have the unions; and the high schools were basically out of that business. So Metro launched into an effort to build buildings that could house modern facilities for the future for our four counties for trades. And I would like to say one of the reasons the data center is located in our four county area is Metro has the national model and data center training and the workers come out of Metro. Thanks to IBM and their donations, we're very proud that we didn't have to pay the whole bill on that. So we could have went out for a bond issue and we could have raised property taxes, but instead our plan looked at going around and visiting with our local businesses and philanthropists in our four-county area to see how much money we could use in raising a public-private partnership. And over the last five years, we raised \$150 million towards buildings at the community college. Property taxes did not go up. Tuition went up minimally, but it didn't go up because of the buildings. Our students do pay \$64 a credit hour, which is by far the lowest tuition in the Midwest. We're committed to that. Some have asked me about cutting the budget some time. I'd like to say we've already cut our budget by not charging tuition. And our students, you know, enjoy the fact that they can attend Metro and get out debt free. But in addition to that, we

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

charge a \$5 fee to the student per credit hour for facilities. So the students do have skin in the game. Our general fund reserve is used almost exclusively for operations and maintenance in these buildings. We've taken out \$7 million this year, and so we've budgeted \$105 million and \$7 million on top of that from the general fund reserve for staffing and maintenance in the new buildings. Because any time you add square footage, even through a bond issue, if you're adding staff and you're adding equipment, and you're adding other things it's going to cost you. And you have to have that money available. So Metro's cash reserve is used to support our buildings that we built. It's also used in case there is some kind of catastrophic opportunity that occurs. But we also have built our reserve on three revenue components. Our reserve is not property tax solely, it's property tax at 40-- if you-- I guess if you did the math, it's property tax at 47 percent of our reserve, tuition at 25 percent of our reserve, and state aid at 25 percent of our reserve. So there's three components that are added in to not only ours but all the community colleges property tax-- I mean to their reserve. So when looking at the property tax, 50 percent of the property tax, we're opposed to that because currently 50 percent of the operating budget is on a semblance of order in terms of planning, in terms of our accreditation, in terms of many things. And we're certainly below that-- that limit, 50 percent. And hopefully over the next three or four years we'll spend our \$7, \$8 million dollars a year and-- and lower our-- our cash reserve. So I'll stop with that and answer questions.

BREWER: All right. Well, you had good timing there. All right. Questions? Senator Blood.

BLOOD: Thank you, Chairman Brewer. And this is a quick one, because it's getting late. So you talked a little bit about your strategic plan, and I just want to make sure I was right, because I kind of spoke without clarify anything with you. So, but my understanding is strategic planning, because I teach it to my clients, is that you don't only plan for 2 years, 5 years, but you plan for 20 years, 40 years, would you say that that's correct for your institution?

RANDY SCHMAILZL: That's correct.

BLOOD: Thank you.

RANDY SCHMAILZL: We try to fund 10 years of it.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BLOOD: Makes total sense.

BREWER: Well, you did a very good job of explaining the divisions, because I think that's one of the things that's hard to fully comprehend is just how it's all split up and how it's used and what goes where. So, my-- my compliments there.

RANDY SCHMAILZL: Thank you.

BREWER: That's handy to have. All right. Any other questions? Seeing none, thank you for your testimony, sir.

RANDY SCHMAILZL: Thank you very much.

BREWER: Welcome to the Government, Military and Veterans Affairs Committee.

PAUL ILLICH: Thank you, Senator Brewer. I just want to focus on a couple of things that we haven't heard to this point. And one of them is that we--

BREWER: Could I have you go ahead and give your name and spelling.

PAUL ILLICH: Oh, sorry. My name is Paul Illich, P-a-u-l I-l-l-i-c-h, President of Southeast Community College. So one of the things I wanted to point out is that we heard a lot about strategic planning. We've heard that several times. In the case of Southeast Community College and all of the community colleges, they all have financial stability as a goal within their strategic plan. So you might ask, well, how-- how do we-- do we have a way of defining financial stability? It turns out in Nebraska we certainly do. Actually, we're all accredited by the Higher Learning Commission which is the-- which is the largest of seven regional accrediting bodies in the United States. So what-- what they require every year-- every year you have to produce a report called the composite financial index. In that report requires you to show that your financials-- financial-- financially stable. It has four ratios that you have to calculate. It turns out that in three of those ratios it uses fund reserve in its calculation. So if you take this what's in LB386 and you put that into the calculation we're gonna fall well below the threshold that's required by the Higher Learning Commission. We will not be considered financially stable by the Higher Learning Commission. And I have contacted the liaison after I saw this bill to find out exactly what the next step is. And the next step would be immediately put on

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

monitoring that if you don't take appropriate corrective action, that would lead to loss of accreditation. So that's actually something that is accredited. It's-- it's regulated by the regional accrediting body. The other thing that's really important to remember, and you heard a little bit about this, is that property tax only represents one of three sources of revenue that make up our total operating budget. So in our case, it represents about 26 percent. So we heard a lot about positive cash flow. Southeast Community College has 10,000 students, about 1,200 employees, over \$163 million budget. In order to cash flow, we need somewhere between \$25 and \$30 million. And so you might ask, well, why is that? Community college, we have about 80 percent of our expenditures are associated with salaries. Those go out on a monthly basis. The income does not come in the same cycle. So your tuition income comes in towards-- comes in, it is collected on the basis of semesters or quarters. The state aid is collected across 10 months. Two of the months you receive no state aid collection. And then you have differences in your collection of your property tax levy, with more money coming in August and April. So simply to cash flow, we have to have about a \$25 to \$30 million just to cash flow. So not only would you not be accredited, you wouldn't simply-- you wouldn't be able to cash flow from month to month as well. And the other thing to remember is, if you look at the State Auditor's Office Web site, you will see that as an aggregate, across all the six community colleges, the-- right now our fund reserve represents 40 percent of our total operating budget. This bill would push us down to 15 percent as an aggregate, 13 percent. And one of the things our financial auditors always tell us, you need about six months in order-- in your fund reserve to operate. This bill would make sure all the community colleges only have about two months. So it would be well below what would be required by the auditors. So again, it's pretty straightforward in the sense that we're-- you wouldn't base your fund reserve only on a portion of your revenue, you would base it on your total operating budget. So for those reasons, it would not only make it difficult to cash flow, you wouldn't be able to continue your-- you wouldn't be able to continue your accreditation. What you might ask, why is that a problem? Well, in order to receive federal financial aid, when they call it Title IV funding, 80 percent of our students are either receiving a federal loan or they're receiving a Pell Grant or some other type of federal grant. So what this would do, is it would eliminate our ability to be involved in federal financial aid if you're not accredited. You must be accredited by one of the seven regional crediting bodies. So there's actually a lot of components associated with-- when we talk about strategic planning, there's lots

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

of complex components associated with that. It's also important to remember, we have an 11-member elected board and they pay very close attention to our strategic planning, our financial stability. So, and they're very, very careful stewards of that-- that fund reserve and that property tax. So again, I'll stop there and take any questions that you might have.

BREWER: All right. Thank you for your testimony. I think we got them wore down. You're good to go. Thank you.

PAUL ILLICH: Thank you.

BREWER: Welcome to the Government, Military and Veterans Affairs Committee.

ANDREW BROTT: Good afternoon. My name is Andrew Brott, A-n-d-r-e-w B-r-o-t-t, with the city of Omaha. The city of Omaha is in opposition to LB386. This bill represents-- this bill limits cash reserves to 50 percent of the property tax revenues exclusive of capital outlay. The city of Omaha property tax only represents about 16.3 percent of our 2019 budgeted revenues. This limits our reserves based on only 16.3 percent of our revenues. Additionally, the city of Omaha is self-insured in more than one area including medical insurance for employees and retirees which have an annual budget in 2019 approaching \$70 million just for that one piece. We're also, in addition to this, self-insured for most all of the city vehicles and equipment. And we have an inventory in excess of 3,100 units, including police, fire, public works, parks, etcetera. And as an example, one fire truck ladder is in excess of three-quarters of a million dollars just to purchase. We must also keep reserves to cover litigation and other costs. Cash reserves can help protect taxpayers against tax increases when unforeseen events arise. The city of Omaha has a transparent budget process and we have tried to lead by example by having two different property tax levy decreases in the last several years. The city of Omaha also has a large CSO project estimated at \$2 billion and we have been trying to use cash on hand, as well as bonds, to pay for this largely unfunded federal mandate. This federal mandate has significantly increased our cash balance due to the need to have contingencies for these large projects. As an example of the size of some of these projects, the city council recently signed off on an \$89.6 million contract with Hawkins Construction recently to build the Saddle Creek Retention Basin facilities. And in addition to this, when we issue bonds, the bondholders require reserves to protect their investment. We also typically hold a reserve back when we pay

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

contractors so that we are able to have some leverage in the event that the job is not completed satisfactory. It is also important to note that these funds are enterprise funds and have restrictions as to how they can be spent. So it's not like you can just take those moneys and give a tax cut because they're a part of the enterprise fund that La Vista, Papillion, Bellevue, Ralston, Omaha pays into. But that's all part of the city-village form we're filling out. So these funds are still included in that. On another note, this legislation further complicates the existing law that creates a problem for the city because we budget on an accrual basis. In conversations that I've had with the State Auditor's Office, the city-village form that collects the data to support the current laws designed for governments using a cash or budgetary form of budgeting. It starts with the cash balance as the actual and budgeted receipts and then subtracts the budgets to arrive at an ending cash balance. We have been told that the majority of filers in the state of Nebraska are on a cash basis so that the form was designed for most governmental entities within Nebraska. The city of Omaha has struggled for years with the current city-village filing requirement because we're on an accrual basis of budgeting and the cash balance will continually, basically, be wrong due to the form design. It would be nice if we simply had a checkbook where we started with cash, budgeted on a cash basis for the year, and then had an ending balance. That is not the way most large municipalities operate and is actually not a best practice. Our budgets are prepared using the accrual basis of accounting in which revenues are recognized in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred. In summary, most of the money this current city-village form shows is a balance forward or cash reserve is not actually money that is available to give us a tax cut or to spend. Our 2019 cash reserve fund projects that we will have only \$9.3 million as a cash reserve at the end of 2019. Additionally, our 2019 contingent liability fund projects we will have \$1.7 million at the end of 2019. Just to put that into perspective, our 2019 one-year budget is in excess of a billion dollars. These reserves are from a city with a general fund budget of \$400 million and these funds represent a reserve of about 3 percent of general fund appropriations. Our cash reserve fund already has a city ordinance associated with it that limits the amount we can put into it, that puts the limit at 8 percent of general fund appropriations. Thank you for your consideration of our opposition to this bill.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: All right. Thank you for your testimony. Questions? All right. Thank you.

ANDREW BROTT: Thank you.

BREWER: Welcome to the Government, Military and Veterans Affairs Committee.

MARK DUREN: Thank you. Good afternoon, Chairperson Brewer and other senators of the committee. My name is Mark Duren, M-a-r-k D-u-r-e-n, and I am testifying today on behalf of the Eastern Nebraska Development Council, which is a group of companies and professionals involved in land development. I'm a certified public accountant working in Omaha and my firm represents many sanitarian improvement districts, which I'll refer to from here on after as SIDs. I'm an opponent of this bill for the following reason. Basing the cash reserves on 50 percent of personal and real property tax collections will create major issues for emerging SIDs as follows. An emerging SIDs has limited taxable value until home sites are built. Typically, it's raw land with limited value so our tax collections are very, very small. At the same time, the general fund has expenditures that they have to deal with annually including streetlights, utilities of other sorts, insurance, and many other matters in terms of maintenance. The lack of valuation early in the life of an SID results in expenditures well in excess of tax collections. At that point in time, these SIDs are actually negative working capital. To fund that gap the SIDs issue warrants, which is a form of financing, to allow the SID to pay its vendors, subcontractors including, again, utilities, insurance, engineering, etcetera. The financing for the warrants is typically a three-year period until maturity. Limiting our cash reserves would put the SIDs in a situation they would not be able to meet their financial responsibilities in terms of these warrants. As I mentioned, SIDs in the early years are always negative because their expenditures have exceeded their receipts. SIDs are currently subject to subdivision agreements requiring a minimum levy threshold of usually 90 to 95 cents applied to the value. Current law allows the 90 cent levy to remain in the general fund for the initial five years of the SID's existence. The reason for that is it is anticipated that the expenditures will exceed revenues in those first five years so the cash reserve needs to be built up in order to pay back those warrants on a three-year period. After the five-year period is over, the levy drops down to 40 cents maximum for the general fund, protecting the taxpayers. LB386 will result in the reduction of tax directed to the

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

general fund, therefore resulting in the inability to pay back warrants under the three-year term. Assuming the warrants are not paid back timely, the SID will need to register more warrants, find additional financing, adding fees and interest costs resulting in longer periods of higher levies burdening the taxpayers. I provided in my memo a simple example that indicated there'd be a cut of about 50 percent of taxes due to the proposed law versus the current law which is 50 percent of expenditures versus 50 percent of taxes collected. In addition, for more mature SIDs, they could face issues as well. At some point in time, the SID will have major street repairs. And the SID typically uses cash reserve, as well as current taxes to pay those repairs. In a situation like this, the reserve will be way too small which would require them again to issue more warrants, incurring more financing costs and interest to pay back those warrants over time and more taxes on the taxpayer. If you have any questions I can answer them.

BREWER: All right. Thank you for your testimony. Questions? Senator Blood.

BLOOD: Thank you, Chairman Brewer, and thank you for your testimony. So, since you represent the ENDC, did I hear that correctly?

MARK DUREN: Correct.

BLOOD: OK. Would you say that the ultimate goal of SIDs, at least in that part of the state, because I can't speak beyond Lincoln--

MARK DUREN: OK.

BLOOD: --is to get the debt paid down so eventually they can be incorporated into municipality that they usually abut?

MARK DUREN: Correct.

BLOOD: That's all I wanted to know. Thank you.

BREWER: All right. Additional questions? Senator Hilgers.

HILGERS: Thank you. Was that a question or is that [INAUDIBLE]. Thank you.

BREWER: Just a surprise.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

HILGERS: Mr. Chairman, I apologize for being late, I was in Judiciary.

BREWER: Snuck in here.

HILGERS: I did. Thank you for your testimony, appreciate you being here. I mean it seems to me that there's-- Senator Erdman's bill has some common sense appeal to it. And the objection that I hear is, what we need in some instances-- this cash is-- it's better for us to have this because it's going to be used in some other instance and it's going to-- because we can save it up now, then-- then that will allow us to save financing costs down the road. Is that a fair sort of description of at least your objection?

MARK DUREN: Yes, that's a-- that's a fair statement.

HILGERS: So how do you-- I mean, so that's not going to be all instances, right? So how do we-- how can we modify the bill to account for, and I'm not saying Senator Erdman would even want to do this, but how can we account for the-- it seems like that's not going to be in every single instance, so how do we account for those types of-- where it's going to save money to do that. How can we be sure-- it's a two-part question. How can we account for that and how can we be sure that, that when folks build up their cash reserves that they're actually doing it for similar purposes that you identified?

MARK DUREN: Well, keep in mind for a sanitarian improvement district, our moving parts are very, very, very small. No employees. We're basically trying to pay back the improvements that have happened within the district. When you talk about a strategic plan, there's a strategic plan from the beginning to the end for an SID, because we have to pay back every bond that's been issued to pay back everything that's been incurred by the district for utilities, streets, power, everything that goes in. So it's much more simpler to deal with a SID when it comes to this. Our-- our struggles are early on. We would have a very difficult time meeting our financing demands if this would pass. And that would require additional financing which may or may not be able to be achieved. We have bond issue concerns as well, because on the-- on the other side of the-- of the funds, we have the construction fund which has to pay back all the construction, and that would create problems for us there, too. So, addressing cities and-- and universities and colleges and that type of thing is probably beyond the scope of my knowledge to be honest.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

HILGERS: So fair to say that your-- your testimony is really limited to instances in which you've got significant infrastructure costs and this is, in your view, a tool to help avoid potentially financing charges or other costs down the road?

MARK DUREN: Correct.

HILGERS: All right. Thank you very much.

BREWER: All right. Any additional questions? Seeing none, thank you, sir, for your testimony.

MARK DUREN: Thank you.

BREWER: OK. How many more do we have to testify on this bill? All right. Welcome to the Government, Military and Veterans Affairs. OK. You may begin.

DEAN EDSON: All right. For the record my name is Dean Edson, D-e-a-n E-d-s-o-n, and I'm presenting testimony today on behalf of another individual named Dennis Schueth that you will see on this letter. He was on his way here to present today and had to turn around and go back home for a family situation. So, and I'm not going to read this verbatim. You've heard a lot of points. I just want to outline some things the way that the NRDs operate. We follow a pay as you go funding for a lot of our projects and programs. We plan out years in advance of knowing things that are going to come up and how much money may be needed. And so the district starts setting aside monies in their reserves to fund those projects. I want to also point out we don't have general obligation bonding authority to do any major project-- or to do projects with the exception of the metro area of a Papio. They're the only ones that have bonding authority and that's limited to infrastructure for storm water and flood-- flood control structures. So for the rest the districts, they have to set aside funds. So, I want to just hit a-- highlight a couple examples of what they're doing and what they're save-- what this district's saving their money for. They have a major nitrate problem up in their area. It's very sandy soils, and they have high nitrates and they've been working with the producers up there to develop some programs to try to address that. As of February 1 of this year, the district moved into what is called phase 3 management. There's four phases of management. Phase one is education; phase two is a little bit more restrictive; phase three is when you really get in-- start getting into some regulatory activities. What they-- what this encompasses is 25

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

townships in this management area, roughly 519,900 acres, 70 percent of its in row crop. Their average nitrate level is nine parts per million. The maximum allowable under safe drinking water is 10. So they're right at it. What they've done is they've worked with all the local producers up there to develop this program. They've been working on this for several years. The district has set aside money to start implementing it. Of late-- the next page of the testimony kind of lays out what they're going to do with their requirement of deep soil sampling and other techniques. They're going to put cost share toward-- towards-- to producers to implement this. One of the other issues that come into play is, you know, what other funds are available to us. We've been able to get some grants to help establish the program to do the planning. But once these rules and regulations come into play, then a lot of the grant monies, programs that are available, we become ineligible for them, because you can't use these grants to implement rules and regulations or to provide cost shares to comply with those regulations. So one of those is environmental trust fund. It doesn't allow for funding to help implement rules and regulations. There's other sources available to us, but they require a 40 percent match from the local district. I want to point out that a few years ago, state aid for the NRDs was eliminated. They no longer have state aid available. And the Water Quality Fund, there used to be a dollar a ton fertilizer tax that was distributed back out to the districts to help with the water quality programs. That was eliminated. That generated about \$4.3 million. That was-- those funds are no longer available anymore. There is-- the Legislature did replace it with a million dollars in other funds from pesticide registration fees. So, you've got a drop about \$3.3 million. The other project that Dennis laid out there is that they're involved with the Niobrara River Basin Alliance. It's a partnership with about five NRDs that are trying to resolve the issues on the Niobrara. They know they're going to have some obligations in the future, so all those districts are setting aside money to take care of those obligations in the future. So with that, time's up, almost up so I'll stop and answer any questions you may have.

BREWER: All right. Thank you for your testimony. Now, just so I understand, how much cash reserve does--I guess in this case, you're representing--

DEAN EDSON: Dennis, the Upper Republican-- or Upper Elkhorn.

BREWER: Right.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

DEAN EDSON: I don't know exactly what their cash reserve is right now. I do know that their levy that they're operating under is 1.55 cents per hundred dollars. They're one of the lowest districts as far as levying property taxes. And so even with the monies they're setting aside, it's a small amount, but it builds over time. And that's the way that district has chosen to operate.

BREWER: All right. Any additional questions? All right. Thank you for your testimony.

DEAN EDSON: Thank you.

BREWER: Next testifier.

JOHN BACHMAN: Good afternoon.

BREWER: Good afternoon. Welcome to the Government, Military and Veterans Affairs Committee.

JOHN BACHMAN: Senator Brewer, members of the committee, my name is John Bachman, J-o-h-n B-a-c-h-m-a-n. I'm an Omaha attorney. I'm here on behalf of Eastern Nebraska Development Council. I know you've had a long day. I'll keep my comments brief. I agree with Mr. Duren's testimony regarding the unfortunate fact that this proposed bill would have on sanitary improvement districts, particularly in their early years when the valuation of a district is not anywhere close to the expenditures that are required to start and operate a sanitary improvement district. The other thought I have is that sanitary improvement districts have a limited life. They're-- most of them will be annexed by a city at some point. To the extent that there may be extra cash reserve at the time of annexation, that money goes directly to the city that is annexing that district. My residents that we represent in-- our firm represents approximately 70 sanitary improvement districts. They want that cash reserve for the rainy day. And it's not that we have an exorbitant tax levy, our subdivision agreements require a certain tax levy until we are fully bonded. The rest is just what our residents want to do. They want to keep a healthy cash reserve so that they can take care of the streets and their sewers and their operational expenses as-- as they need on an annual basis. And with that I'll answer any questions.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: All right. Thank you, sir. Questions? All right. Looks like you're going to get off easy. Good afternoon. Welcome to the Government, Military and Veterans Affairs.

SHERRY WOLF: Thank you. Good afternoon, Senator Brewer and members of the committee. My name is Sherry Wolf, S-h-e-r-r-y W-o-l-f, and I'm the budget director for the city of Lincoln and I'm here to testify in opposition to LB386. Cash reserves are an important part of municipal finances as they are to any budget. Like households, cities keep reserves for emergencies, save for cash projects, and to make up for temporary shortfalls in revenue. In addition, cities have investors in our bonds. Those bonds are rated, and a good portion of the rating focuses on cash and available reserves. These ratings are important to interest rates for the bonds and for Lincoln's reputation in the market. Bond rating agencies use several indicators to judge the city's financial condition. Two important measures to judge the liquidity of cities is cash available compared to total revenues, and fund balance available compared to total revenues. Moody's expects AAA cities, such as Lincoln, to have a minimum of 30 percent of fund balance and 25 percent of cash compared to the total revenues received. Limiting the cash available to 50 percent of the personal and real property tax would limit the city for our '18-19 budget to approximately \$34.3 million compared to our total budget for tax bonds of \$205 million. This is approximately 17 percent of our total revenues. This bill would jeopardize the city of Lincoln's AAA credit rating and require us to immediately draw down our reserves. Reserve limits should be set on total budgets and not limited based upon the amount of property tax received. This would be inconsistent with how rating agencies judge municipalities. In addition, municipalities regularly save cash to pay for projects, limiting the amount of cash that can be saved would encourage financing in other ways such as issuing bonds which increase costs through interest incurred. So thank you for your time. The city urges you to oppose LB386 due to its potential impact on our municipal finances.

BREWER: And you still have a green light, well done. All right. Oh, just a second. Any questions? All right, you're good to go. Oh, Senator Hilgers.

HILGERS: Thank you. Thank you, Mr. Chairman. Thank you for testifying today. So I understand the principle objection being from the city's perspective that having a lower number will harm its Moody-- its rating-- bond rating?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

SHERRY WOLF: And I would-- we have all the same concerns of much of the testimony that you've already heard today as well. We just kind of wanted to take that different tact and point that out.

HILGERS: I appreciate that. So what did you say-- what is the current-- city Lincoln reserve did you say?

SHERRY WOLF: We have about \$41 million.

HILGERS: Forty-one.

SHERRY WOLF: That's our general fund, yes.

HILGERS: And then, what was the threshold-- and that is, did I hear you say it's \$205 million is the budget-- what-- break me out--

SHERRY WOLF: I'm kind of mixing our general fund and our tax fund here, I'm talking about-- I'm kind of going back to the fiscal impact statement that was submitted to keep things consistent. Our general fund reserves are about \$41 million and we would have to draw that down to about \$36 million immediately.

HILGERS: Historically, has it been around \$41 million? Is there any--

SHERRY WOLF: Those things fluctuate quite a bit over time; again, depending if we have similar planning projects. At the city of Lincoln, we have a requirement that we are only allowed to appropriate 90 percent of our property tax in any given year. So budgeting fund balances is a planned strategy in our financial planning, and it varies over time, how much is-- appropriated a balance.

HILGERS: And that makes sense. Thank you. One last question would just be, I think, depending on your answer, what would you-- would you object to having a limit that is essentially set at whatever Moody says is the necessary threshold for liquidity in order to have a-- whatever bond rating that it is that we want to have and--

SHERRY WOLF: That's a very good question. I still think that municipalities would prefer to have the flexibility to plan strategically to best utilize the resources that are available to us.

HILGERS: And I-- and I-- conceptually I understand that point. I think the-- I think the competing concerns are the ones that are well-run or have infrastructure, [INAUDIBLE], maybe like SIDs, the gentleman was discussing. There might be some reasons you could save money by doing

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

it this way that might not be apparent when you look at budgets. On the other hand, how do you look at the municipalities or other entities that aren't using it for maybe the type of purposes that others [INAUDIBLE] on cash for no reason than just to do it and have it later, right? So I guess that's the-- seems like that's where the tension is and I don't know how to how to resolve it, so.

SHERRY WOLF: I think there's always been a delicate balance over what is the prudent amount of the taxpayers' money to hold in reserve. I think each government entity has to balance their needs and priorities against that concern.

HILGERS: Thank you.

BREWER: All right. No additional questions? Thank you.

CHRISTY ABRAHAM: Good afternoon, Senator Brewer.

BREWER: A familiar face. Welcome back to Government, Military and Veterans Affairs.

CHRISTY ABRAHAM: Hello. I'm very glad to be here. My name is Christy Abraham C-h-r-i-s-t-y A-b-r-a-h-a-m, representing the League of Nebraska Municipalities. I promise to be brief. I just sort of wanted to do a brief summary of what you've heard from municipalities today. I think from the larger cities, what you're hearing is they're concerned about their bond rating. They're concerned about the increased money that they might have to spend in order to borrow money. From your more mid-sized cities, I think what Mayor Kindig laid out so eloquently to you is, they have a lot of Nebraska Advantage issues in their community and they are setting aside probably more reserves than they normally would to make sure that they can take care of when that happens, when they get that loss of sales tax, excuse me, that loss of sales tax so they can step forward. The other concern we hear from sort of mid-sized communities is, I'm going to use Kearney as an example. So much of their budget is sales tax dollars, not property tax dollars. So when this bill is going to limit their cash reserve to 50 percent of their property tax asking, Kearney is going to have a drop of 75 percent in their cash reserve. So that's a significant amount for a community that has so much of their funds coming from sales tax and not property tax. In your smaller communities, I think you have a letter from the city of Stromsburg. She's much more eloquent than I am, but the smaller communities' concerns seem to be cash flow issues, that their property tax dollars

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

are coming in later than when their fiscal year starts. So they go a few months without getting any property tax dollars and they do dip into their cash fund-- cash reserve to sort of pay for operating expenses. They'll also tell you that they've had some issues with snow removal. I think you all know it's been quite the snowy winter and they've had to dip into cash reserves to pay for those types of emergency issues. So thank you for your time, Senator Brewer; I know it's been a long afternoon, but I am happy to answer any questions.

BREWER: All right. Thank you for your testimony. Questions? Questions? You are good. Thank you.

CHRISTY ABRAHAM: Thanks so much.

BREWER: All right. Any additional opponents? Any here in the neutral position? Senator Erdman, come on up and close.

ERDMAN: Thank you, Senator Brewer. Good to be back. I heard some things there that maybe I need to think about. First of all, maybe we need to make a few adjustments on their property tax collected in a reserve if you have a reserve greater and that money put in there is different than property tax. The second thing that I didn't hear, the thing I didn't hear the most was none of them said, yeah, we use our cash reserve down to less than 50 percent, or we used it up. They didn't talk about that. All them talked about a contingency plan and we need to have this reserve in case this happens or something else happens. And I understand that the smaller communities, cities have trouble with collecting property tax, probably in May and September, the majority of it is collected then. Our county had the same problem. We made it work. We didn't have any cash reserve when I started. We made it work. It's not an easy thing to do, but we did get through. So the SIDs are another issue that we perhaps need to consider. But all in all, as you seen today, there were no taxpayer sitting here except for those people that were paid to come here, and they pay taxes, I understand that. In the case of Lincoln, their reduction would be slightly over 10 percent. They have \$41 million and have to go down to about \$5.1 million. So it's about a 10 percent reduction, a little over that. I am just thankful that the state of Nebraska doesn't have to function under the same principles that some of these people said they have to because we'd be shut down, because we have about 26 days of working capital. And they were complaining that they needed to have at least two months. But we're OK with 26 days. But they can't make it on 26 days. So the issue here is who needs to manage the money? Whose money is it? And how do we best take care of someone else's money

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

that's given to us? And so I would ask you to advance this. And if I need to work with some of these people to try to adjust some of these minimums so it doesn't affect what they collect outside of property tax, I may need to address that. But you've been here a long time, I didn't intend for it to be that long. But to answer Senator Kolowski's question, I guess we spoke to most of the community college people here today. So with that I'll close. Thank you.

BREWER: All right. Thank you for your testimony. And Senator Blood.

BLOOD: Thank you, Chairman Brewer. Just a quick question on what you just said. So you said that nobody commented that they have ever gone below 50 percent. But didn't the community colleges say that part of their accreditation was to keep a specific level that was above what you are proposing?

ERDMAN: They did say that.

BLOOD: To keep that-- to stay accredited.

ERDMAN: They didn't say they spent below 50 percent though, did they?

BLOOD: No, but they said they had to keep what they had to stay accredited; is that correct? Did I hear that correctly?

ERDMAN: According-- according to their accreditation.

BLOOD: And so, do you think that, that's not important for those schools?

ERDMAN: Who does the accreditation?

BLOOD: They explained that, that there's a specific organization that oversees that. And then in order to be able to do Pell Grants and student loans, that through the government, that they had to be accredited. Isn't that what they said?

ERDMAN: That's what he said.

BLOOD: All right. Thank you.

BREWER: Sorry. I was doing some of that command stuff.

ERDMAN: It's all right. No problem.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: All right. Additional questions? All right. Seeing none, thank you for your closing.

ERDMAN: Thank you.

BREWER: We do have letters to read into the record on LB386. One proponent, two opponents, and none in the neutral position. With that said, we're going to do a quick battle handover here.

HILGERS: I have the gavel. Thank you. Senator La Grone, you are welcome to open on LB609.

La GRONE: Thank you, Senator. Hilgers, members committee. My name's Andrew La Grone, A-n-d-r-e-w L-a- space G-r-o-n-e; I represent the 49th Legislative District which is Gretna and northwest Sarpy County. Since we've been here for a while, I'll keep it really short. Essentially what LB609 is-- LB609 is on behalf of Lancaster County. Essentially what it does is, if it's cheaper to allow an employee to rent a car rather than reimbursing them for mileage for a work trip, this says the county can do that. [LAUGHTER]

HILGERS: Thank you.

La GRONE: That's it.

HILGERS: Thank you, Senator. Are there any questions? Thank you very much for your wonderful first-class opening. Are there proponents for LB609?

ROMA AMUNDSON: Yes.

HILGERS: Welcome, Commissioner.

ROMA AMUNDSON: I don't know if I can quite [INAUDIBLE]. [LAUGHTER]

HILGERS: Do you agree?

ROMA AMUNDSON: I do, yes. OK. Good afternoon, Senator Hilgers and members of the Government, Military and Veterans Affairs Committee. My name is Roma Amundson, R-o-m-a A-m-u-n-d-s-o-n. I'm a member of the Lancaster County Board of Commissioners. I'm here to testify in behalf of the Lancaster County Board in favor of LB609. Lancaster County constantly monitors its day-to-day operations to find efficiencies which can help reduce the costs of providing governmental services. Research over the last few years has demonstrated that it is more

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

economical for the county to utilize cars owned and or rented by the county rather than paying mileage reimbursements to employees, officials, and volunteers using their own cars while engaged in county business. Additionally, the county is concerned that such individuals may not be carrying the necessary business rider on their personal automobile insurance to adequately protect them from personal liability should they have an accident while driving for county-related purposes. For these reasons, Lancaster County is moving forward with the establishment of a county motor vehicle fleet and rental program which is adequate to meet the transportation needs of our employees, our officials, and volunteers while they are engaged in county business. However, as we began developing policies for this purpose, we encountered two statutory obstacles which may prevent the county from maximizing the savings and the efficiencies from our new program. Specifically, provisions under Section 13-2203 and Section 23-1112 of the Nebraska statutes mandate that the county must reimburse for mileage at the rate allowed by Section 81-1176, even though it is less expensive to use a county-owned or rented vehicle. This problem can be solved by amending Section 13-2203 and 23-1112 to provide counties with the same statutory authority which the state of Nebraska already has regarding, excuse me, the management of its own vehicle fleet. The proposed technical amendments under LB609 use the same statutory language which gives the state its flexibility in establishing different reimbursement rates for the use of private vehicles depending upon the most economical means of transportation and whether that personal automobile usage is for the convenience of local government or its employees, officials, or volunteers. So, thank you for considering my testimony. Be happy to answer any questions you may have.

HILGERS: Thank you, Commissioner. Are there questions? Senator Blood.

BLOOD: I think it's a good idea, just so you know.

ROMA AMUNDSON: OK.

BLOOD: But I'm reading through this and I just wonder if it sprays when it says the actual expense of the rental vehicles, does that include fuel and--

ROMA AMUNDSON: Yes. Would you like an example?

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BLOOD: Can you show me where it's-- where it would clarify that in the bill.

ROMA AMUNDSON: Oh, OK, well let's see here.

BLOOD: It's the end of the day and my brain is starting to--

ROMA AMUNDSON: The governing-- the governing body may establish different mileage rates based on whether the personal automobile usage is at the convenience of local governments or at the convenience of the local government's local elected-- let's see where is that here? The mileage at the rate allowed by the section for travel by the personal automobile, but if traveled by a rental vehicle or commercial or charter means as economically practical, then authorized expenses shall include only the actual cost of the rental vehicle or commercial or charter means. Does that answer your question?

BLOOD: No, but I think I can talk to Senator La Grone after the hearing. So I'm just making sure that we're not forgetting something.

ROMA AMUNDSON: OK. I took a little bit longer than you.

HILGERS: Thank you, Senator Blood. Are there any other questions? Seeing none, thank you for your testimony.

ROMA AMUNDSON: You bet.

HILGERS: Are there any more proponents for LB609? Seeing none, anyone wishing to testify in opposition? Seeing none, anyone wishing to testify in the neutral capacity? Seeing none, we do have one letter in support for LB609. Senator La Grone, you're welcome to close.

La GRONE: I'll simply get up to answer your-- Senator Blood's question. I'm pretty sure-- I can double-check on this for sure for you, but I'm pretty sure the actual expenses languages is defined elsewhere to include that--

BLOOD: Yeah, I just want to be sure before we pass [INAUDIBLE].

La GRONE: Yeah, and I can [INAUDIBLE].

HILGERS: Thank you, Senator. Are there questions? Seeing none, thank you very much. That will close the hearing on LB609. And I will hand the gavel back to the Vice Chair.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

La GRONE: Senator Hansen, you're welcome to open on LB273.

M. HANSEN: Absolutely. Good afternoon, Vice Chair La Grone, and fellow members of the Government, Military and Veterans Affairs Committee. My name is Matt Hansen, M-a-t-t H-a-n-s-e-n and I represent Legislative District 26 in northeast Lincoln. Today I'm introducing a bill that is vital to Nebraska communities with significant public safety needs and obligations. LB273 allows governmental units to exempt law enforcement, fire protection, or emergency services from current restricted funds through the budgeting process. When you talk to constituents about local issues, you hear two clear priorities: roads and public safety. The bill in the front of you focuses on public safety. Public safety services must expand-- public safety services must expand, and in existing territories, in order to timely respond to emergencies. In fact, Lincoln is currently in the process of adding response times and growing areas of east and south Lincoln by adding police and fire stations. But these buildings can't sit empty. Police and firefighters are needed to fill the staff of these stations. Half of Lincoln's budget supports public safety personnel at a cost that are exceeding the 2.5 percent limitation. Chief Jeff Bliemeister from Lincoln Police Department will testify behind me to speak more to the current needs and benefit of this bill to the police force in Lincoln. In addition to the Chief, there will be others behind me who could speak directly on how this will be helpful to local government units based on current budget restraints and how this would work in practice. As a senator, I want my community to focus on public safety and view that as a necessity and this is why this exemption is important in acknowledging that. With that said, I understand that public safety costs are a large part of city budgets, and certainly the city of Lincoln's budget. I think it's a common sense bill, but I'm open to discussion on how to best invest in public safety going forward. And with that, I will close and I'd be happy to take any questions.

La GRONE: Thank you, Senator Hansen, for your opening. Are there any questions? Seeing none, thanks for your opening.

M. HANSEN: Thank you.

La GRONE: We'll now move to proponents. First proponent? Welcome to the Government Committee.

JEFF BLIEMEISTER: Thank you, Senator. Members of the Government, Military and Veterans Affairs Committee, my name is Jeff Bliemeister,

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

B-l-i-e-m-e-i-s-t-e-r, and I serve as the Chief of Police for the city of Lincoln. And I'd ask that the letter and attached documents be part of the record. And I appreciate the opportunity to testify in support of LB273. Lincoln, similar to many of the communities that we've heard about here today, is thriving. And we have witnessed more than a decade of continuous population growth and land expanse. The need for LB273 would be greatly diminished if we weren't experiencing this growth. So the services law enforcement in Lincoln provide are based upon input gained through objective taking charge surveys. Safety and security has been the top priority since the inception of this in 2008, and certainly since my tenure beginning in April 2016. The priorities are also clearly stated in the Lincoln Police Department's strategic plan and the Mayor's strategic plan. We need to continue the growth of our staff to provide the services the residents of Lincoln have come to expect. We've done other things, we've pared down duties to keep pace. As one example, we have less officers in our community services unit today because prioritization of existing personnel necessitated movement to positions within our geographic teams. This is just one example. We've also discontinued other services that we previously provided such as response to private property accidents. So in the last 10 years, the city of Lincoln has added more than 35,000 people to our community. That's the combined population of Columbus and Beatrice. The police department in those cities have 86 total commissioned employees. To kind of put that in perspective during this decade long growth, Lincoln Police Department has added 31. Of the 31 policing agencies in the state of Nebraska serving communities with populations over 5,000, Lincoln is the smallest. We have the smallest ratio of officers per 1000. In order just to keep pace with the annual growth, we have to add four officers every single year. And so I want to put my compliments out to the city of Omaha, because in order for the Lincoln Police Department to have the same ratio, not the same number, but the same ratio with officers that serve the city of Omaha, we would have to add 184 commissioned officers today at an annual cost of \$18 million. Since 2007, we've added 8.3 square miles, and that's in your handouts, roughly the land area of Fremont, to our boundaries. And to Senator Hansen, that we have to provide the same level of response to those living on the outskirts as those living directly adjacent to our policing stations. Matching the growth of Lincoln is a need. The handouts show trend lines: mental health investigations, reports of sexual assault, the processing of video evidence, the analysis of digital evidence, and these are just a few of the increasing demands on our already stressed work force. I also included in there a complex-- well, the analysis is in comp-- or the trend line

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

isn't complex, but what goes into it is and it measures how we are looking at our officers' time. And as you can see, their committed time continues to expand with every single year. So this forum does not provide the opportunity to explore all of the aspects of the challenges we face. We've discussed population growth, land annexation, escalating trend lines for several different call types and demands on our services. LB273 is important to public safety and that's why I'm here today. And your support will afford an opportunity to provide policymakers in Lincoln the ability to expand the ranks of the Lincoln Police Department. I believe that it is their decision to weigh in on what services they need will be objective and based upon analytics, priorities planning, and comparative data. And with that I would offer to answer any questions or attempt to that I could.

La GRONE: Thank you for your testimony. Are there any questions?
Senator Hunt.

HUNT: Thank you so much for being here today. How's the Jeff Fortenberry vandalism investigation going?

JEFF BLIEMEISTER: That investigation has been cleared with a citation, and we continue to expand to see if there's any other offenses that are related to that.

HUNT: Do you think that that's burdened your force with more work?

JEFF BLIEMEISTER: You know, I do not. We worked for over 3,500 vandalisms last year. And I don't believe that this is the proper forum, but in the disposition of that particular court case, there will be other details that come out that show patterns of abuse that really lent towards those citations being issued.

HUNT: Thank you. Thank you for your service to our community.

JEFF BLIEMEISTER: Thanks.

La GRONE: Thank you, Senator Hunt. Any additional questions? Seeing none, thanks for coming down.

JEFF BLIEMEISTER: Thanks.

La GRONE: Are there any additional proponents? Welcome to the Government Committee.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BRANDON KAUFFMAN: Thank you. Good afternoon, Chairman Brewer, members of the committee. My name is Brandon Kauffman, B-r-a-n-d-o-n K-a-u-f-f-m-a-n. I'm the finance director for the city of Lincoln. I'm here to testify in support of LB273. I'm also here testifying on behalf of the League of Nebraska Municipalities. This would allow governmental units to exempt public safety costs from restricted funds calculations. The restricted funds law is revenue capped law. Basically, it limits our core revenues to 2.5 percent growth per year. These revenues make up over 75 percent of our taxing funds; so highly important revenues like sales tax, property tax. These funds serve to help fund services like police and fire, street maintenance, parks recreation, and public libraries. Restricted funds laws also allows for exemptions within this calculation, but those exemptions only calculate-- calculate for about 23 percent of our budget. So total overall, our revenues, most-- the majority of revenues are funded by these restricted funds. But the exemptions are fairly minimal. Remaining revenue is primarily provide for personnel, for expenditures, things that support operations are the largest tax funds like public safety. Public safety compromises over 50 percent of the tax funded budgets for the city of Lincoln. Property tax valuations have grown about 4.8 percent over the last five years. And sales tax has grown about 3.87 over the last five years with the city of Lincoln. This is because, primarily, we're a growing community. We have a strong local economy. But this also puts pressure, as you heard, on providing services for our local citizens, especially for public safety. Lincoln has one of the lowest tax rates of the first class cities. In the city of Lincoln only represents about 16 percent of the total tax bill for those who live in Lincoln. In '17-'18, the city of Lincoln dropped the tax rate almost 5 percent. Over the last 10 years though, the city has eliminated bus routes, reduced senior center hours, reduced library hours, closed pools, reduced park maintenance to balance-- to maintain a balanced budget and also to be fiscally sound. Public safety services are strained by the growth in the community. Restricted funds laws limits that court revenue that the city can receive to fund public safety. To adequately address public safety needs and exemptions should be made for public safety expenditures in this law. This is important to growing communities like the city of Lincoln. Without exemptions like this, Lincoln will struggle moving forward, just to be able to balance the budget and also to address community growth issues. LB273 does not mean a tax increase. It just provides a governing body with the flexibility to fund services at appropriate levels, especially public safety and growing communities. As an accommodation to ensure that reductions in

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

services that may be necessary to comply with restricted fund limits do not impact public safety which our citizens have indicated is their highest priority. I urge this committee to support LB273.

La GRONE: Thank you for your testimony. Are there any questions?
Senator Hilgers.

HILGERS: Thank you, Vice Chair La Grone. Thank you, Mr. Kauffman, for being here. I appreciate your testimony on this bill and many others, and for your-- the time you take to, at least explain to me, the very complex nature of these laws. I do have just a couple of questions that contrasts a little bit with the bill that we heard last year, which if I recall correctly, was the-- it was-- [INAUDIBLE] there was a new construction exemption-- exception, if I recall, and that actually was a slightly different exception in the sense that what it did was that 2.5 percent, or the cap-- the cap-- the new construction would not go towards the cap. Is that-- is that-- am I stating that roughly correctly?

BRANDON KAUFFMAN: Yeah, I mean new construction would be able to basically be added to that cap. I think it was the bill that was presented last year.

HILGERS: So it increased the base, as it were.

BRANDON KAUFFMAN: Yes.

HILGERS: And this is slightly different in the sense that it would make an exception for the funds that-- the purpose of the funds.

BRANDON KAUFFMAN: Yes, that is correct.

HILGERS: So, currently, Lincoln spent roughly how much on law enforcement?

BRANDON KAUFFMAN: It's about 56 percent, I think of our general fund-- the budget.

HILGERS: So if this were-- I'm sorry, did I cut you off?

BRANDON KAUFFMAN: No, you're fine.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

HILGERS: OK. If this were to pass, there would be nothing that would say the city of Lincoln would have to spend a dime more on law enforcement, correct?

BRANDON KAUFFMAN: That is correct.

HILGERS: So in other words, Lincoln could spend the same amount it's spending, but that's-- that spend would not count towards the cap, right?

BRANDON KAUFFMAN: Yeah, I mean this would just carve out an exemption specifically for public safety. So I'd say, you know, our public safety costs, over the last 10 years, have grown, I think somewhere around 4 percent a year. You know, everything else is fairly restricted. But this would just carve out that exemption specifically for public safety to allow for greater expenditures above that 2.5 percent cap.

HILGERS: And that would-- but that would-- so what-- but at 50-- you said, roughly 56 percent of the budget is law enforcement.

BRANDON KAUFFMAN: Of the general fund budget, yeah.

HILGERS: So would that mean if this were to pass that-- that 56 percent-- or the growth on that 56 percent; or that 56 percent at all wouldn't count towards the cap?

BRANDON KAUFFMAN: Yeah, I think the growth on that wouldn't count towards a cap. Yeah.

HILGERS: So what-- what we-- I appreciate everything Chief Bliemeister has done for the community and I certainly support-- strongly support of the Lincoln citizen adding more officers to Lincoln Police Force. There's no doubt they do an outstanding job. My-- my concern, maybe you can help me with this concern, it's just that if this were to pass, there is no guarantee that any additional dollars would be spent on law enforcement.

BRANDON KAUFFMAN: I can't guarantee that. You know, I can-- I can never guarantee you what any governing body is going to do.

HILGERS: Sure.

BRANDON KAUFFMAN: I think it just allows for the flexibility more than anything. If you looked, I'd say, tax caps at other states, and I

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

think I spoke a little about this last year. Like TABOR, you know, they've got a new construction. The state of Kansas, they've also have a new construction that's allowed in their restricted funds type build. But they've also got a public safety exemption that's also built into their kind of tax limits. So I guess we're asking-- we're just asking more from flexibility. I think for a step that we're also seeing nationally to carve out certain exemptions that are important to the community like public safety.

HILGERS: I appreciate that. Thank you very much, Mr. Kauffman.

BREWER: All right. Senator Kolowski.

KOLOWSKI: Thank you, Mr. Chairman. Thank you for being here today. I appreciate that. Tell us about the sheriff and his or her operation within the county. How many officers are there in the sheriff's department, do you have that?

BRANDON KAUFFMAN: I don't have the information on the sheriff. I think on, I'm going to see if the Chief is still here. He had to go. I can't tell you that information off the top of my head. I want to say we have-- I don't even want to give you a number right now without having that specific information.

KOLOWSKI: Thank you very much.

BRANDON KAUFFMAN: But I can provide that information at a later date.

KOLOWSKI: That's fine. Thank you.

BREWER: All right. Additional questions? Seeing none, thank you for your testimony.

BRANDON KAUFFMAN: Thank you.

BREWER: More proponents. Additional proponents for LB273? Come on up. Welcome to Government, Military and Veterans Affairs.

ANDREW BROTT: Thank you. My name's Andrew Brott, A-n-d-r-e-w B-r-o-t-t. The city of Omaha is in support of LB273. This proposed legislation would allow for a little exception for budgeted restricted funds used for public safety such as police or fire and 911. Public Safety is a large portion of our annual budget and allowing this as a lid exception would increase our own use restricted funds authority to

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

allow for unforeseen circumstances that may arise. Thank you for consideration of our support for this legislation.

BREWER: All right. Thank you for your testimony. Questions? Questions? All right. Seeing none, thank you. And next proponent? Welcome back to the Government, Military and Veterans Affairs.

BETH BAZYN FERRELL: Thank you. Chairman Brewer, members of the committee, for the record, my name is Beth, B-e-t-h, Bazyn, B-a-z-y-n, Ferrell, F-e-r-r-e-l-l. I'm with the Nebraska Association of County Officials; I'm appearing in support of LB273. I would just like to echo the comments of previous testifiers. I don't think I need to explain the reasons why we support this bill or how restricted funds work, but if you have questions, I'd be happy to try and answer them.

BREWER: All right. One more time, questions? Seeing none, all right, thank you for your testimony. Any additional proponents? All right, seeing none, opponents? All right, seeing none, those in the neutral position? Holy cow, we're speeding. All right, Senator Hansen, come on up and close.

M. HANSEN: Thank you, Chairman Brewer. Thank you members of committee. And thank you to all to testifiers. Just fundamentally, public safety is a huge priority. It's what-- from our cities, especially what our constituents really expect is a first and foremost in them. And right now we have a provision in law that just, I think, could allow some more flexibility to hire law enforcement. Senator Hilgers, to your point; you passing this law does not guarantee any spending increase, decrease, or change. You know, in the city of Lincoln, for example, you know, I'm proposing this bill in the middle of, you know, a city election cycle, so we can potentially, I think we're guaranteed to have three new members of the city council and a new mayor, so who knows what the budget priorities are going to be, because we don't know, necessarily who the government is going to be. I think notwithstanding that, this is just good public policy for the state to allow flexibility for police, fire, and emergency services.

BREWER: All right. Questions for Senator Hansen? Seeing none.

M. HANSEN: Thank you.

Transcript Prepared by Clerk of the Legislature Transcribers Office
Government, Military and Veterans Affairs Committee February 21, 2019

BREWER: We will go ahead, LB273 has no letters to read in. So with that, that closes our hearing on LB273, and closes our Government hearing for today. Thank you.