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Appropriations Committee February 5, 2021
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STINNER: [RECORDER MALFUNCTION]-- is John Stinner, I'm from Gering, and represent the 48th District. I serve as Chairman of this committee. I'd like to start off by having members do self-introductions, starting with Senator Erdman.

ERDMAN: Thank you. Steve Erdman, District 47: 10 counties in the Panhandle.

CLEMENTS: Rob Clements from Elmwood, District 2: Cass County and parts of Sarpy and Otoe.

McDONNELL: Mike McDonnell, LD5: south Omaha.

HILKEMANN: Senator Hilkemann, District 4: west Omaha.

STINNER: John Stinner, District 48: all of Scotts Bluff County.

KOLTERMAN: Mark Kolterman, District 24: Seward, York and Polk Counties.

VARGAS: Tony Vargas, District 7: downtown and south Omaha.

DORN: Myron Dorn, District 30: Gage County and southeastern Lancaster.

STINNER: Assisting the committee today is Brittany Sturek, our committee clerk. And to my left is the distinguished and honorable head of our Fiscal Office, Tom Bergquist. At each entrance you will find a green testifier sheets. If you are planning to testify today, please fill out a sign-in sheet and hand it to the committee clerk when you come up to testify. If you will not be testifying into the microphone, but would want to take-- be on the record as having a position on the bill being heard today, there are white sign-in sheet at each entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearing. To better facilitate today's proceedings, I ask you to abide by the following procedures. Please silence or turn off your cell phones. Move to the reserved chairs when you are ready to testify. Order of testimony is introducer, proponents, opponents, neutral, closing. When we hear testimony regarding agencies, we will first hear from the representative of the agency and we will then hear testimony for

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anyone who wishes to speak on the agency's budget request. Spell your first name and last name for the record before you testify. Be concise. It is my request that you-- that we limit your testimony to five minutes, except for the introducer. Written materials may be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and staff when you come up to testify. We need 12 copies. If you have written testimony but do not have 12 copies, please raise your hand so the page can make copies for you. With that, we will begin today's hearing with the Governor's budget director, Will.

LEE WILL: Lee, thank you. Chairman Stinner and members of the Appropriations Committee, my name is Lee Will, L-e-e W-i-l-l, and I'm the State Budget Administrator of the Department of Administrative Services Budget Division. I'm appearing today on behalf of Governor Ricketts in support of LB379 through LB385, with the recommendation also including the following: LB387 military retirement benefits; LB388, the Broadband Bridge Act; and availability of \$2 million each year for Opportunity Scholarships to K-12 students. These pieces of legislation comprise the Governor's budget recommendation for the '21-23 biennial period. The biennial budget package contains funding for operations of state government, state aid for individuals and local governments, and capital construction, which are outlined in these bills. These contents have been summarized in the Governor's Executive Budget in Brief, 2021-2023 Biennium publication, dated January 14, 2021. I have provided a copy of this publication along with my prepared remarks to the committee clerk for your records. Also, we have posted to our website, budget.nebraska.gov, the comprehensive publication named Executive Budget, 2021-2023 biennium, also dated January 14, 2021. Several tables and reports are included on our website summarizing the Governor's recommendation for the biannual period, displaying appropriations for all agencies, programs and fund types. The Governor's recommendation for the '21-23 biennial budget are contained in LB379 through LB383, with fund transfers and changes to fund language included in LB384 and LB385. LB379, or otherwise known as the deficit bill, includes the transfer of \$88 million from the General Fund to the Cash Reserve Fund to ensure the property tax trigger is fully implemented from the newly passed LB1107 during the 2020 session. This provides for a total of \$596.7 million in property tax incentive credits for the biennium period. LB384

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includes a General Fund transfer in each fiscal year of \$272 million to provide for a \$550 million total appropriation in the Property Tax Credit Fund for the biennium. The bill also provides for transfers from the General Fund into other cash funds in the amount of \$14.8 million in '22 and '23. LB385 transfers \$50 million from the Cash Reserve Fund in '22 and \$65 million in '23, with \$115 million in ongoing costs to construct a new multicustody correctional facility. A \$50 million transfer is also reserved for the U.S. Space Command operations at Offutt Air Force Base. In addition, the bill provides for \$5.6 million in '22 and \$4.1 million in '23 from the Cash Reserve Fund to the Nebraska Capital Construction Fund, or NCCF, to facilitate multiple capital construction projects. LB386 provides for increases the judges' salary of 3 percent each year, which has been referred to the Judiciary Committee. The Governor's budget recommendation for the '21-23 biennium provide for a two-year average increase of General Fund appropriations of 1.5 percent while maintaining quality services to the citizens of Nebraska. The recommendation also provides for a total of \$1.36 billion in property tax relief for the biennium. The recommendation includes a \$437.6 million balance in the Cash Reserve Fund at the end of the '21-23 biennium. Agency directors will be prepared to discuss specific recommendations related to their respective agencies during the upcoming budget hearings. Also, the staff of the State Budget Division and I will be available throughout the process to discuss specific recommendations to assist the committee, if necessary, in establishing a final recommendation for the '21-23 biennium. On behalf of Governor Ricketts, I want to share my appreciation for the work of the Appropriations Committee. And we look forward to working with you over the next two-month period and as we finalize your recommendations. And thank you, I'd be happy to take any questions.

STINNER: Questions? I have-- Senator Erdman.

ERDMAN: Thank you, Senator Stinner. Thank you for coming today. So the \$50 million transfer to the Space Command center, do you know something about that that we don't?

LEE WILL: I don't, Senator Erdman. That was included in the recommendation for the project that ultimately decided where it was going to go. But we're hopeful that what the new Biden administration,

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that they may reconsider that action. But as of now, I don't know anything that you wouldn't know, sir.

ERDMAN: What if they don't.

LEE WILL: Then that money would stay in the Cash Reserve Fund.

ERDMAN: OK. The other question I have, is you may have seen the article in the paper about the failure to, what shall I say, account for revenue in the correct way. And it mentions your department. Do you have any comments about that?

LEE WILL: Yeah, so I think you're referring to the [INAUDIBLE] report. The Accounting Division takes all the reporting capability functions from state government and puts it in an underlying report. I will say that the report was in error \$21 billion, but it was not a misuse of funds and other things. And I know Director Jackson is looking to mitigate that situation and working with the Auditor to make sure that we get this right. But there was not a misuse of funds, it was a misuse of of reporting functionality

ERDMAN: That seems to be a problem.

LEE WILL: That is problem.

ERDMAN: Pretty significant.

LEE WILL: We are-- we are--

ERDMAN: The article, the letter from the Auditor went on the say we only did a brief analysis and there are other errors than we think there are. So how many did they not get?

LEE WILL: That's, that's a fair question, Senator Erdman. And the only thing I can tell you is we're working to make that report the best we can make it and we're trying to mitigate all the errors. Twenty-one million-- \$21 billion-- \$21 million is not acceptable, let alone \$21 billion. So we're doing everything we can to make sure we, we do better.

ERDMAN: So what number is acceptable?

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LEE WILL: Zero.

ERDMAN: That's good.

LEE WILL: Yeah. We want to make sure that it's accurate as possible.

ERDMAN: Right. Yeah, this is a problem. Yeah, and, and just by saying, hey, we're going to fix this, you know, and it's not the first time. And so we expect agencies and departments to have more money like they should and account for it correctly. This is a, this is a huge problem. And this, this needs to not be swept under the rug.

LEE WILL: I'd agree.

ERDMAN: Thank you.

STINNER: Additional questions? Seeing none, I have a series of questions, and I think you're familiar with our budget book that we turn out. And then in the back of the budget book, we have projections for the next biennium. We call it "out years." Tax Rate Review also has that in there. We, we reference to it all the time. And in that, embedded in that report is provider rates. And I think you're aware that we have been using 2.5 percent for provider rate increases. I also did a 20-year lookback on provider rates and found that every year, except for two bienniums, where we had substantial shortfalls in revenue, we provided anywhere between 1.5, we meaning the Legislature, to 2.5 percent increases in provider rates. The question that I have, and this is not an indictment of the current Governor, because in talking to Tom, apparently no governor has put in increases in provider rates in, in their budget. But in this case, obviously, it's a fairly substantial number. I mean, 2 percent would be about \$90 million, 2.5, I think, is \$115 or \$112. I can't remember exact numbers. But would you enlighten me as well as the committee, the, the idea that we don't have to increase provider rates?

LEE WILL: Sure. So Senator Stinner, I think I shared with you as well that the CARES Act for this year anyway, provided over \$800 million in direct financing support to providers in the state of Nebraska. That touched over 2,500 providers in the state. The other thing is, I know HHS is in frequent contact and does surveys and other things with providers to see if they, they believe that that is sufficient. And

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they indicated that it is sufficient rates, especially because so much of that money went to providers this year.

STINNER: So because they got extraordinary dollars for an extraordinary event to cover extraordinary expenses, you think that's sufficient to hold them up?

LEE WILL: I don't think that that's wholeheartedly sufficient. I mean, like I said, HHS goes through these surveys. They communicate with the provider community and they just haven't been hearing a lot of the outcry that these provider rates need to be increased.

STINNER: OK, we did in our preliminary, for your information, put zero in there. We're, we're looking forward to the providers coming in and building a case for us.

LEE WILL: Sure.

STINNER: I have heard from, you know, DD providers. I've heard from, now from the behavioral health people. I've heard from nursing homes. And indeed, there is extra cost, there's ongoing cost. You know, even if I look back and I say, you know, we've given our employees at the state level 2 percent, acknowledging that inflation does impact, impact the carry-- the cost associated with doing business. These providers also have those costs. So it's inconsistent in my mind not to try to at least understand what's happening at that level. And we will cover that probably in our posthearing. We'll again have the providers in taking a look at it. I want to go through, the second thing I want to go through is, and I think you probably listened to the testimony we gave on LB1107.

LEE WILL: Yep.

STINNER: And I will highlight for you what we, what we as a Legislature agreed to do, what we as a committee of six people and what I presented as safeguards as LB1107 was supposed to have been. LB1107 really was about offering property tax relief by and an in-- by, by revenue growth. And the first thing we did was to say, and debated certainly within the six of us and we brought it to the floor, is what is normal and customary expenses for the Legislature to incur. And we debated 2.5, we debated 3 percent because, you know, 3 percent,

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this committee has predominantly funded everything with a 3 percent raise. But then there was discussion, oh what about unusual items? So we went to 3.5 percent as the first threshold, OK, before we ever put a dollar into the, the property tax relief. The other thing that we were concerned about is the level of the rainy day fund. And the rainy day fund had been depleted over the years for the obvious reasons and we wanted to make sure that that was also taken care of during this five-year period of time. And it was a five-year window of time that we're going to provide \$375 million additional, would be at 650, but we were going to fund it through growth. So the 3.5 became a threshold. And then, of course, one half until you get to 500 would go to the rainy day fund, one half would go to property tax relief. In your budget, I will ask you this. COVID is an unusual item.

LEE WILL: Sure.

STINNER: OK? I think we both agree with that. I think you're a whole lot younger than I am, but I can tell you through my entire business career, I've never seen a filing date moved by the federal government due to something, artificially moved. That artificial movement obviously caused \$270 million now to be recorded in this, this part of the biennium, right?

LEE WILL: Yep.

STINNER: Interestingly, that 270, if I divide it into, into this number, it's 5.1 percent. And you're basically looking at the 7.1 as the threshold amount, three-- 3.5, the 7.1 that provided you, I guess, what I would call compliance with LB1107. But if I want to normalize and really look at a normalization of everything, one would say \$270 million artificially came in where we depleted the other year by \$270 million. So I've got 5.1 percent artificially high in this year, but interestingly, because I pulled that based down, the percentage actually goes up.

LEE WILL: Yep.

STINNER: So if I adjust that back up, I actually have negative growth on a normalization basis.

LEE WILL: All right.

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STINNER: So to use the 7.1 as justification to all of a sudden accelerate what we had planned to go to the floor with-- and interestingly, when we, when we went to the floor, it was 125 and 125 for two years. We weren't projecting anything.

LEE WILL: Yep.

STINNER: OK, so now all of a sudden we're going to take an, another move that you used was the ADA transfer to get to 500, so you're in full compliance and we're offering property tax relief. But we haven't provided for provider rates, which is an ongoing cost. Now, if I throw provider rates in there, obviously we can't afford both of them. And so that's the position that you've put this committee in, is to take a look at that cost associated with accelerating is \$173 million. On top of that, you've come in with a request for \$115 million for a prison. OK? I think we had that in as an offset. We haven't appropriated that in our, our preliminary budget simply because we don't know. Program statement isn't even going to come out till April. There's a lot of discussions that have to happen before we can do that. But I'm referring back to the \$173 million. Now, if I do provide rates at \$75, \$80 million, I got enough for the prison in the General Fund. And oh, by the way, the rainy day fund isn't depleted to 300, it actually stays well above 600 or 500, 550. If I take the 50 million out, the SpaceX, and I do general funds for the first part of the prison and I provide for provider rates, don't I check all the boxes in that?

LEE WILL: Can I offer on that, sir?

STINNER: Yes.

LEE WILL: So the thing I would say is, yes, there will be, have to be a decision that the committee is going to make between provider rates and property tax relief. What I hear in my role is from farmers who are, you know, they're sick of it. You know, they want more property tax relief. So do we want to do more government expenditures on provider rates or do we want to do property tax relief? And to us, it was an easy answer to give back property tax relief to the people.

STINNER: But still, even with the projections we have, we're going to be at 211 in the biennium as opposed to the 121 or 125 that we offered. So we are actually increasing--

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LEE WILL: Sure.

STINNER: -- what we had committed to to the Legislature, to the people in Nebraska, more dollars. The other thing that, that you can't dismiss at this point in time, because you've depleted in your summary the rainy day fund, only one half has to go to over 3.5 percent. You've depleted under 500 million because of the way you put the structure.

LEE WILL: Yeah, I mean, I don't know if depleted would be the word I would use, Senator Stinner, 437.5, I think, was the number that would be available on the rainy day fund at the end of the biennium. As you know, this year we're exceeding receipts, fairly substantially, even what was projected, the \$286 million over. So I would estimate that that number is going to even be higher after we end this fiscal year.

STINNER: And there was a potential for that. And you and I don't have crystal balls.

LEE WILL: Correct.

STINNER: These are all based on forecast. I get that. I tend to agree with what you're saying as well. But the fact of the matter is, I'm better positioned with my budget because I'm over 500 starting out. So if we do get 4 percent growth, that half a percent automatically, 100 percent goes to property tax. Where if you're below that line and you're-- only one half goes. So we're better prepared in putting together a robust rainy day fund, which is your fiscal posture, which a lot of people actually rate the state of Nebraska on, right?

LEE WILL: Right.

STINNER: One of the first things, if you look at the Moody's ratings on bonds for the University of Nebraska, for example, how strong is that source that comes from the state of Nebraska that supports the university? The first thing they talk about is the rainy day fund.

LEE WILL: Right.

STINNER: So it's important to me. It always has been important to me. The rainy day fund, making sure that we've hedged our bets. That's our hedge against future risks that are out there.

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LEE WILL: Yeah.

STINNER: I think it's-- I think you have to when you're putting a budget together, put that as one of your major priorities. And I get the fact that we've got to do something on prisons. I have no idea what the outcome of that's going to be. Judiciary and Appropriations will probably be in joint sessions. We've got to have a lot of hearings, we've got to have a lot of information, a lot of briefings. That's a long way, maybe, off. Maybe we don't start the prison for the first part of that biennium. I don't know that. But that needs a tremendous amount of study. But those are the things that we're going to have to deal with in this committee. And as I look at it, I'm checking boxes. I'm hitting the goal. I'm providing for provider rates, I'm providing for property tax relief over and above what we had projected. We're providing for all the Governor's incentives in this, we're leaving 46 million for the floor. And I've got a rainy day fund that's positioned, fiscally positioned superior to what the projections are in your budget. And actually, it puts us in a better position because we're well above that 10 percent threshold that is considered to be a minimum.

LEE WILL: Yeah, my response is there's \$176 million in property tax relief that would not be mechanized through that process if we don't pull that trigger. And people have expressed that's the number one issue that we always hear is property tax relief. And I agree it's more than those projected 125. But it's still not enough when people are seeing their property tax bills go through the roof.

STINNER: You know, I truly get that. That's why we worked so blasted hard last session--

LEE WILL: Right.

STINNER: -- to try to bring something that is significant to the floor that, that really kind of mitigates or answers some of the property tax questions. But the other side is, is I think the constituents in Nebraska look at the state as you've got to be financially responsible. You've got to provide for the basic needs, which is, you know, the 3, 3.5 percent. So we've done that in this budget. But you also have to make sure that our fiscal posture stays in place.

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LEE WILL: Sure.

STINNER: And that's the rainy day fund. And I-- it frustrates me that we-- that I even have to have this conversation. In any event, is there any additional questions? Senator Dorn?

DORN: Thank you, Chairman Stinner. Thank you for coming today.

LEE WILL: Sure.

DORN: This is more-- could you explain the situation with St. Francis a little bit? And, you know, what's happened since the Governor's budget came out and what impact or your view on that?

LEE WILL: So we had conversations with Director Smith in regards to that during the biennial budget process. And we asked if there was additional financing in that specific program that would need to be had in order to facilitate the addendum to the contract. Their existing base appropriation and the recommendation contained within the Governor's '22 and '23 appropriation is enough financing to provide for that addendum contract, new contract or additional financing to support that contract.

DORN: You know, I hear you right and, and I'm not trying to--

LEE WILL: No, no.

DORN: -- pick or whatever, but then you in your-- in the Governor's proposed budget, you were kind of aware of this and you did, I call it structure it such that that will be able to be handled within the current proposal.

LEE WILL: Yeah, we knew negotiations were under way. We didn't have a specific dollar amount. We had a pretty good idea of what the threshold it was going to be. And then we followed back up after those negotiations happened. And it is sufficient within their current program to sustain that contract. So in the Governor's recommendation, it would be enough to support St. Francis' contract.

DORN: Explain a little bit in their current programs. The Department of Health and Human Services, they have enough, I call it leeway in their--

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LEE WILL: Yeah.

DORN: -- funding available that they can adequately this, through this budget, handle that?

LEE WILL: Correct.

STINNER: Any additional questions? I just have one more. You know, we passed LB1107, and embedded in that is that 300 million contingent liability. It's going to be interesting to see, and do you have any idea how you're going to disclose that in the financial statements?

LEE WILL: Not at this time, Senator. I'd have to follow up with you on that one.

STINNER: OK. Additional questions? Seeing none, thank you.

LEE WILL: Yeah, thank you.

STINNER: Due to COVID, we have different options that people can, can use. And one of those options is to turn in an hour before written testimony that normally those testifiers would show up. And we have two of those written testimonies. One of them is from Jon Cannon. I'm the Executive Director of the Nebraska Association of County Officials. I appear today in support of provisions within the base-level budget request of LB380 for Riparian Vegetation Management. NACO supports incentives to strengthen county weed control authorities and fully fund the state's noxious weed control and riparian invasion-- invasive species programs. Cooperation between Nebraska Department of Agriculture noxious weed program and the county weed control programs is essential to maintaining strong weed management efforts in the state. Sustainable, stable funding for the invasive plant management in riparian areas is essential to increase the flow convenience, increased wildlife habitat and increase water available for human use. Counties support the Legislature's 2006 appropriation, which was a million dollars, which passed 48-0-1. It has been reduced as low as 456,000. We did increase it to 702,000 last year. Please consider our thoughts prior to taking action on LB30-- LB380. Thank you for your willingness to consider our comments. If you have any questions, please feel free to discuss that with me. I am reading this testimony. I don't necessarily have to, but I figured we got time. So

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you have to put up with my, my bad reading. Then I have another one in support-- or a comment on the budget committee hearing. Please accept this written testimony from David Geier, Director of Nebraska Gamblers Assistance Program, offered on behalf of Nebraska Commission on Problem Gambling. This year, for the first time, the Commission on Problem Gambling appears to offer testimony on cash fund transfer bill. I am offering testimony on two cash funds transfer proposal. First, I'm requesting a transfer in amount of 400,000 each year for Compulsive Gamblers Assistance Funds from the Charitable Gaming Operations Fund. Last year in LB1009, the Legislature amended Section 9-1,101. These changes eliminated statutory appropriations from the Charitable Gambling Operations Fund to Compulsive Gamblers Assistance Fund and replace them with a discretionary transfer. This explains our request today. I'm also requesting to renew the transfer of 250,000 from the Health Care Cash Fund and the Compulsive Gamblers Assistance Fund. This transfer has been approved each year since 2005 and it's essential to be part of our program revenue. Attached is the outline of the history of support for the compulsive gamblers assistance that has been derived from the charitable gaming tax and Health Care Cash Fund, and an outline of the current sources of revenue that support the operation of the Gamblers Assistance Program. The two cash fund transfers will combine with other sources of revenue to provide a total of 1.8 million to support Gamblers Assistance Program. This is less than our proposed appropriations, but enough to support ongoing operations for Nebraska gambling. These will be made part of the record. I would also like to include in the record opposition to the budget from RISE or RISE organization. Nebraskans for Prison Reform, LouAnn Biek, Katherin Wilson. OK. I don't believe we have anything left, so I will take a motion to adjourn, I guess.

CRAIG BECK: Senator.

STINNER: Oh.

CRAIG BECK: I have testimony in opposition.

STINNER: Oh, I'm sorry.

CRAIG BECK: No, that's fine.

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STINNER: I thought with the big crowd we had, there was nobody-- everybody was in support of the budget. I am sorry about that.

CRAIG BECK: No, no problem, Senator. So good morning, Chairman Stinner and members of the Appropriations Committee. My name is Craig Beck, that's Craig Beck, and I am the fiscal analyst at OpenSky Policy Institute. And I'm here today to testify in opposition to LB380. While we appreciate that the committee faces an unprecedented task in crafting a budget during a global pandemic, we do have several concerns with the Governor's budget proposal. First and foremost, we are concerned with the proposed increase of LB1107's refundable income tax credit. As Senator Stinner said, in passing LB1107 last year, legislators enacted fiscal guardrails to protect the budget and ensure the cash reserve fund was strong enough to help weather economic downturns. These guardrails were a key factor for many lawmakers in supporting LB1107, and we are worried the credit increase called for in the budget works counter to these guardrails. Under LB1107, one key guardrail is that the income tax credit only grows when the state's revenues increase by over 3.5 percent in the first few years. However, last year's change of the income tax filing deadline triggered an increase in the credit that was based on artificial growth, again, as Senator Stinner mentioned, rather than real revenue growth. This budget proposal again triggers an increase in the credit that is not due to revenue growth, but rather by a transfer of money into the rainy day fund this fiscal year that brings its balance to \$500 million. This credit-- excuse me, this increases the credit by an additional \$173.4 million over the biennium. This acceleration of the credit would set a new baseline of \$298 million annually beginning in FY22. Even though state revenue receipts are projected to decrease in FY22 over '21, the credit will stay at that \$298 million base level, which in essence prioritizes the LB1107 credit over funding for other state priorities like health care and education. We also are concerned that the budget proposal would counteract the LB1107 guardrail designed to maintain a healthy cash reserve. The Governor's proposal increases the cash reserve in the current fiscal year to accelerate the LB1107 credit, but then draws the reserve down. At the end of the "out years", as Senator Stinner was mentioning earlier, the budget proposal would take the rainy day fund to a projected level of less than 6 percent of receipts, which is well below the recommended level of 16 percent. I have provided a chart that shows that as well. The

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proposed acceleration of the LB1107 credit could also be problematic given the kitty-- committee's expedited budget timeline. As you know, the LB-- the LB1107 credit is a tax expenditure, not an appropriation. And so if the credit is accelerated, this revenue comes off the top. This means that if the budget passes before the April forecast and then the forecast is reduced, the Legislature could very likely find itself forced to hold a special legislative session to enact funding cuts for services that Nebraskans are depending on more than ever amidst the pandemic. The final concern we'd like, also like to note, as Senator Stinner mentioned, is that the budget does not include increased funding for behavioral health provider rates. We believe increasing these provider rates is a necessity, particularly given the pandemic. It is for these reasons that we oppose the current budget proposal. And with that, I'm happy to answer any questions the committee may have. Thank you.

STINNER: Any questions? Seeing none, thank you. And sorry I missed you.

CRAIG BECK: No problem, Senator.

STINNER: Is there any more testimony in opposition? Seeing none, is there any neutral testimony? Seeing none, that concludes our hearing on the budget. Thank you, Director Will, for your first maiden voyage. Very well done. Thank you.

WISHART: Well, good afternoon and welcome to the Appropriations Committee. My name is Anna Wishart and I serve as Vice Chair of the committee and represent District 27 here in west Lincoln. Chairman Stinner is introducing a bill and will be back shortly. I would like to start off by having members of the committee do self-introductions, starting with Senator Erdman.

ERDMAN: Thank you. Steve Erdman. I represent District 47, which is 10 counties in the Panhandle.

CLEMENTS: Rob Clements, District 2, which is Cass County and parts of Otoe and Sarpy County.

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KOLTERMAN: Senator Mark Kolterman, District 24, Seward, York, and Polk Counties.

DORN: Senator Myron Dorn, District 30, which is Gage County and southeastern Lancaster.

WISHART: Assisting the committee is Brittney Sturek, our committee clerk, and to my far left is our fiscal analyst, Clint Verner. Thank you. Our pages today are Samuel Mitchell-Sturgeon and Robert Busk. Samuel is a sophomore studying political science and philosophy, and Robert is a freshman studying economics both at the University of Nebraska. At the front entrance, you will find green testifier sheets. If you are planning on testifying today, please fill out one of those sign-in sheets and hand it to the committee clerk when you come up to testify. If you will not be testifying at the microphone, but want to go on record as having a position on a bill being heard today, there are right in-- there are white sign-in sheets at each entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearing. To better facilitate today's proceedings, I ask that you abide by the following procedures. Please silence your cell phones. Move to the reserved chairs when you are ready to testify. Follow the order of testimony. First we'll have introducers or agency representatives, then proponents, opponents, neutral, and finally closing remarks by the introducer or agency representatives. When you come up to testify, please spell your first and last name for the record before you testify. Be concise. It is the request of our Chair that you limit your testimony to five minutes. Written materials may be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and staff when you come up to testify. We will need 12 copies. If you have written testimony but do not have 12 copies, can you please raise your hand now? Great. With that, we will begin today's hearing with the Department of Agriculture. Do we have a representative from the Department of Agriculture? Good afternoon. Go ahead.

AMELIA BREINIG: Good afternoon, Vice Chair Wishart, members of the committee. My name is Amelia Breinig, that's A-m-e-l-i-a B-r-e-i-n-i-g, and I am the assistant director of the Nebraska Department of Agriculture. Director Wellman regrets that he is unable

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to be with you, but he sends his best to all of you. I want to first start off by thanking you and members of the committee for your support. And I appreciate the work that you've completed on the preliminary budget for Agency 18, the Department of Agriculture. The department supports the Governor's biennial budget recommendation for fiscal year 2021-2022 and for fiscal year 2022-2023. This results in an increase of approximately 1 percent in both fiscal year '21-22 and fiscal year '22-23 over our current base appropriation for all fund types. NDA also supports the Governor's recommendation for salary increases and health insurance increases. The agency continues to find efficiencies and manage our work force as effectively as we possibly can. The department continues to work in line with Governor Ricketts' priorities toward more effective, efficient, customer-focused government for our farmers and ranchers. We make it our mission to regulate industries as prescribed by statute and to encourage and promote the interests of agriculture through advocacy and education. Nebraska agriculture is diverse, expansive, and it's the bedrock of our state's economy. From our driving growers out in the Panhandle to cattle country in Cherry County, to any one of the various ag research and biotechnology companies here in Lincoln and Omaha and everything in between, agriculture keeps Nebraska growing. In order to grow Nebraska, NDA continues to look for ways to promote and develop all of our agriculture industries. The livestock industry contributes more than \$12 billion each year to our economy and our state is known-- is known as a top supplier of high-quality grains. The value-added food industry boasts more than 400 companies with more looking to invest. The department plays a pivotal role in each of these sectors, helping to facilitate connections and build relationships between investors and a state that is a great place to raise a family and to do business. Included in the Appropriation Committee's preliminary recommendation is \$50,000 to contract for temporary additional staff in response to the backlog created during the pandemic, when food inspections were tempoly-- temporarily suspended for two months. The committee has identified 100 percent cash fund authority as the financing element. However, NDA's Food Safety Program operates with 50 percent General Funds as it is designed to protect the public health and welfare of the citizens of Nebraska by assisting operations in providing safe food. Cash funds generated by license fees represent the alternative funding stream for the program. Based on the nature of consumer protection, we would encourage half of this authority to be

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General Fund appropriation, as has been recommended by the Governor. NDA stands willing to do our part to help our state maintain a sound balanced budget while providing the services necessary to grow agriculture and that sector of our economy. Thank you so much and I'm happy to answer any questions you might have. Hi, Chairman.

STINNER: How are you? Any questions? Senator Erdman.

ERDMAN: Thank you, Senator Stinner. Thank you for coming and for your testimony today. I noticed in your testimony it says the Department of Ag continues to look for ways to develop all agricultural industries. The livestock industry contributes \$12 billion each year to our economy. With that said, my question is, why were you opposed to Senator Brewer's bill on the small packing houses? Why were you opposed to that?

AMELIA BREINIG: I think what Director Wellman wanted to lay out in our opposition this past Tuesday were concerns that we had in the ability to to put forth the projected legislation and enacted into law. You know, Director Wellman put forth a number of facts, which I'm more than happy to, to get that paperwork and provide it to you. But we, we came in opposition to what we felt was going to serve farmers and ranchers to the best of our ability as per what we can-- we can do within the Department of Agriculture.

ERDMAN: So did you reach out to Colonel Brewer, to Senator Brewer to see what you could do to alleviate those concerns you had and make that something that could happen?

AMELIA BREINIG: We did have a conversation with the senator before we went in on Tuesday to testify. I can tell you we've been having internal conversations after the hearing on Tuesday and taking stock of the conversations that were had and will move forward from there.

ERDMAN: No, I'm not talking about before Tuesday. I'm talking, you know, in the interim. This is not a new idea. He's had this for a long time and the department knew about that.

AMELIA BREINIG: Correct.

ERDMAN: And so if you're-- if you're going to come here and say we want to continue to promote agriculture in Nebraska and help our

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farmers and agriculturalists, and then when you have an opportunity to work with those people in the interim to come up with a solution as to how we can implement that and you wait until Tuesday to contact him or you come in and testify against what he's trying to do, I don't know how that meets what you're trying to say that you're trying to promote agriculture. It doesn't make any sense.

AMELIA BREINIG: I appreciate that comment. When I said that we went in and we did have a conversation with Senator Brewer, that was, of course, prior to Tuesday. But there was an interim hearing on the issue as well that was held out in Grand Island that Chairman Halloran chaired that we participated in, as well as members of F-- FSIS, which is, of course, the governing body within USDA. And we had conversations based on that. Again, I am more than happy to take back your sentiments to my director and your wish for us to have further conversations to put forth a good solution.

ERDMAN: I think we need to work together to try to solve the problems we have in the remote parts of Nebraska. We don't live in Lincoln and Omaha.

AMELIA BREINIG: I'm from Arapahoe, sir, so I get you.

ERDMAN: All right. Thank you.

STINNER: Additional questions? Senator-- Senator Kolterman.

KOLTERMAN: Yeah, I just have a question about since this was due to COVID, these shortages, are there any COVID funds available to fund some of this?

AMELIA BREINIG: You know, that's a great question, Senator. I know that there's been talk of more federal money being, being allotted coming through in a CARES package. I can't speak to, to what that would be entailed or if some of that is earmarked to be for certain specific, you know, outcomes. We, of course, had within the Department of Agriculture \$12,000 in livestock stabilization grants with which we felt that it was most important to get that money out onto the ground level. So there's certainly a possibility. We just don't-- we don't know that at this point in time.

KOLTERMAN: OK, thank you.

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AMELIA BREINIG: Um-hum.

STINNER: Senator Dorn.

DORN: Thank you, Chair-- Chairman Stinner, and thank you for coming and testifying today. You talked about the backlog in-- and the reasons for hiring a new individual or more staff to help make up the backlog. Where are you currently standing on that and do you look-- are you planning on this just being a one-year type position or how? Give us some insight on that.

AMELIA BREINIG: Absolutely. So the-- the idea behind this is that we want to be as prudent as we possibly can in shoring up what we feel is a vital resource for all Nebraskans. And, of course, that's safety and food. And so we have done this in the past. For example, if we've-- if there's been extraneous circumstances with which we've gotten behind on things where we maybe have brought on retired inspectors to help us get caught back up. And so I think the idea was just to make sure that-- that that stays stable and that we continue to move forward. As of now, at the end of this past year, I don't have the number. As it stands today, we had 170 inspections that are over 90 days due that, that we're working on, on, on tackling. And again, COVID, as I don't need to tell any of you fine folks, just really put a wrench in things this year.

DORN: Well, I certainly hope we are able to, I call it, "expediate" some of those or get those caught up, because I think that's an important part of our industry, too, also in the state of Nebraska, is the public having confidence in knowing that they can have a timely inspection when they need it and stuff. So thank you for those comments.

AMELIA BREINIG: Absolutely.

STINNER: Senator Erdman.

ERDMAN: Senator Stinner, I just have a comment. Whatever Senator Kolterman asked, I didn't hear a word of it.

HILKEMANN: Yeah, I didn't hear anything.

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ERDMAN: So I'm going forward. I think if we're going to speak, we need to take the mask off because I didn't hear a thing you said.

KOLTERMAN: I'm sorry. Can I repeat, I just asked if there was any COVID monies available.

ERDMAN: OK.

KOLTERMAN: And she answered, but I appreciate that.

ERDMAN: Thank you.

STINNER: Additional questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you for being here. Also about the inspection of funding 50/50. That's the-- has been the practice in the past for the inspectors to be 50 percent General Fund and the Department of Ag budget.

AMELIA BREINIG: Correct.

CLEMENTS: That's why you're objecting to all cash funds.

AMELIA BREINIG: Correct? Yep.

CLEMENTS: Is there a-- is that-- that's just department policy? Why is it 50/50?

AMELIA BREINIG: Sure. Thank you very much for the question. So the thought process behind this is, of course, as I mentioned in the testimony, food safety for all Nebraskans. And so for a lot of the services that we provide within the department, you know, take weights and measures, for example, when we do inspections, that is something that the, the operation with which we provided the service benefits from that to say that they've been inspected. And so, of course, that cost is then given or has been taken on by that specific establishment. When we're looking at food and food safety, we view this as a way that the total cost doesn't come down just on the establishment, when, of course, they, of course, need that food inspection to be done in order to be in business. But them being in business is something that provides a service to all Nebraskans. And that's, of course, safe and health-- and healthy food. And so in the

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past, that's given us the ability to kind of share that, that, that burden, I guess, if you will, and be able to do so in a fiscally responsible way that can continue cash flow properly.

CLEMENTS: And are there businesses that are being held back in their business because of not having inspection?

AMELIA BREINIG: That has not been something that's been brought to my attention. Again, when we put that pause these past few months with COVID, we did so with obviously our teammates' safety in mind, but also with the comfortability in mind and to places that we were going to inspect. And so that has not been the case as far as I'm been made aware.

CLEMENTS: Well, that's, that's good to hear. I was worried that we had businesses that were shut down for some reason because of lack of an inspection.

AMELIA BREINIG: I don't believe so.

CLEMENTS: And could you just give me a sample of what businesses do receive inspections? We're not just talking about meat plants, right?

AMELIA BREINIG: Yes, correct. In fact, that we-- we have no inspection at that point in time. We're talking your Miller Time that's right down the street here that's in the Cornhusker. Your mom and pop restaurant; Cunningham's feed in Arapahoe, Nebraska; restaurants within the state of Nebraska.

CLEMENTS: All right. Thank you.

STINNER: Additional questions? So is there an annual inspection required to, as Senator Clements alluded to, if you don't get your annual inspection and certification, what do you do? Just apply for a waiver to keep things going?

AMELIA BREINIG: Sure. That's a great question. So, of course, we try to get out there on the-- on the annual basis. But again, you're in the lineup. You know, we notify you that we'll be on the way and we figure out a way to make it happen. Again, as I say, COVID has just put a--, an unfortunate wrench in things that we're going to work through and we're we're going to get it done.

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STINNER: Now, the fees that come into this cash fund from the inspection, you charge a fee, is that correct?

AMELIA BREINIG: Correct.

STINNER: And so the fees come in to a cash fund and the cash fund's purpose is, is what, to be used for what?

AMELIA BREINIG: Well, it is to be used for expenses in the program. I believe. And I can I can get you this, this answer because I don't want to provide misinformation, but I believe it's to, to help disseminate the program as well as salaries, things of that nature for our inspectors and to carry out the program.

STINNER: OK. Additional questions? Seeing none, thank you.

AMELIA BREINIG: Thank you.

STINNER: Additional proponents. Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, that concludes our hearing on the Agency 18 Department of Agriculture. Is there anyone that wants to testify on the potato board and poultry egg portion of Agency 18? Seeing none, that concludes our hearings on Agency 18. We will now open with, excuse me, I guess we have a letter, one letter of support and that is to be read into the record, supports the Riparian Vegetation Management Task Force is that they have a letter of support. So I want to read that into the record. Is there any additional letters? No. Thank you, Brittany. And that concludes our hearing on Agency 18. We'll now open with Agency 39. Good afternoon.

JOHN WIDDOWSON: Good afternoon, Senator.

STINNER: Good to see you. How were the roads coming in?

JOHN WIDDOWSON: Oh, they were fine. They were they were real good.

STINNER: I guess that's tomorrow we get bad roads, right?

JOHN WIDDOWSON: Yeah. Good afternoon, Chairman Stinner and fellow committee members. My name is John Widdowson, J-o-h-n W-i-d-d-o-w-s-o-n, and I'm the executive director of the Nebraska Brand Committee. And next week's my one-year anniversary for one, one

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year in that role. I am here today am pleased to inform you on the progress of two major undertakings that the Nebraska Brand Committee has focused on for the last three years. I would like to answer three questions that are frequently asked of the committee and lastly, give you a brief description of the committee's budget request and the logic behind those requests. First, the progress. The first of those project was the development and implementation of the new electronic system. This was a conversation-- conversion, excuse me, of the 70-year-old paper-based system to an all electronic system where inspectors are utilizing an iPad out in the field to record thousands of inspection transactions in real time. At the beginning of the '21 fiscal year, the electronic inspection system was completely developed, implemented, and being used in all types of inspections that the committees perform, which include local inspections, auction markets, packinghouses, locker plants, production sales and RFL audits. This is a huge milestone that the committee is very proud to have achieved and worked diligently on. Secondly, the committee identified shortly after the start of the development of the electronic system that a reorganization of the operational flow chart and the staff associated with that flow chart would also need to be adjusted to facilitate the changes in the workflow by the electronic system. I can also report that the committee's operational flow chart has been developed, implemented, and staffed accordingly to the organizational chart for the start of the fiscal year '21. Now on to three frequently asked questions that their answers will be the foundation behind the committee's fiscal year '22 and '23 budget requests. The question is, when will the committee be able to reduce their PSL amount or see the efficiencies from the electronic inspection system? If you would please take a look at the sheet that I've provided to you, that shows the employee totals and the breakdown of what type of employees from 2010 to present. Hopefully everybody's got that in front of them. As you can see, when the committee started the implementation of the electronic system in 2017 and 2018, the reduction of staff went from 105 to 96. You can now see that the staff that we are operating with today and that reduction while mine-- while maintaining head counts of past history. The facts are right there. We've been able to provide the same service with less people. There has been a reduction of staff, staff from the start of the implema-- implementation to the fulfillment of electronic system and the reorganization of almost 25 percent. Now, with that question, will we

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ever be able to reduce the actual dollar amount of PSL? And the answer is probably not unless there is a major shift or change in how the agency does inspection. The physical inspection service is a very labor intensive. The staff's time is the key component of that service. Factors such as cost of living, benefit cost increase, and trying to remain competitive with the pay scales of the competing markets for the staff. This will continue to push the amount of PSL up, even if the number of staff remain the same. In short, the efficiencies that the committee has gained by the electronic system, reorganization of staff, and other operational changes will merely slow the rising cost of labor, therefore slowing the rise of physical inspection fees. The next question is, when will the committee be able to lower the inspection fee? As you can see by the answer from question number one, with the increasing cost of labor, the inspection service type that we provide today by the committee, the fee is probably only going to go up. Therefore, if the goal is to reduce the inspection fee, then there needs to be the identification, creation, and implementation of other forms or processes of inspection that are not so labor intensive, i.e., that's where the e-inspections and the use of technology and EIDs and other forms that the cattle industry is already using, that's where we are leaning for-- towards today as a potential solution. And the last question that we get asked a lot, and this, this question has a point of much conversation that impacts our budget and the agency. What is the goal and the object with the committee's fund equity account or what we call the cash reserves? Since the committee is a cash funded agency and does not rely on any General Fund monies to operate, the committee looks at the cash reserve or the fund equity account as the agency's retained earnings. And it-- and it is to be used for the effects of market fluctuations on revenue and the reinvestment back into our agency. There has been an underlying committee policy to try to keep around 40 percent of the annual budget for an operational cushion. Anything above that would then be for investment back into the agency, or it would also trigger a reduction in fees. Those three questions are asked on a daily basis from producers, our customers and they're valid questions, and they are what drives our budget. And so, as you can see, our budget request for fiscal year '22 and '23, there are two main fiscal issues. One, the increase in personnel service limitation. And the second would be the funds for technology growth. Going back to the personal service limitations increase for FY '22, we're asking for around \$215,648,

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which over this year's PSL limitation, that's an increase of about 6.2 percent. You move over to FY '23, that dollar amount is a roughly \$226,000 and over where our PSL limitation is today under the current '21 fiscal budget, that's about a 7.7 percent increase. The thing that I would like to bring to your attention is when we went from fiscal year '20 to fiscal year '21 that we are operating now, our PSL was cut by 4.5 percent. So if our fiscal-- our PSL limitation hadn't been cut by 4.5 percent, those gains would be respectively less than 2 percent and about 3 percent. So we're making up for the cut from last year, plus some additional PSL limitation. The PSL limitation that we are asking for is absolutely to maintain the current staff that we have. The agency feels like we can maintain the services that we provide and we can do a good job with the number that we have. Also, the next issue is the technology growth. For fiscal year '22, we're asking for \$155,000. In fiscal year '23, we're asking for \$95,000. Those monies will be reinvested into the e-inspection and the EID technology use. With the e-inspection, we will have to build a database that will be third party originated and handled by a third party. We will also then have software update and equipment updates to the iPads to facilitate the using of EIDs. Also, there will be more investment into our timekeeping app, which also regulates and monitors and calculates our mileage. So those are worthy investments of the 155 for fiscal year '22 and 95 for fiscal year '23 come from. Other than those two issues, we did have a team meet-- teammate health insurance increase and also the teammate salary increase for the cost of living. At this point in time, on behalf of the committee, we are asking the Appropriations Committee to please consider our budget requests and please facilitate these budget requests. We have a couple three potential legislative bills in front of us, and it will be critical that we have the appropriation amounts, the PSL amounts to potentially facilitate what might be coming down the road with those legislative bills. I know there's been a lot of work by a lot of people, a lot of stakeholders. I think there's going to be quite a few changes potentially to the Brand Committee that will only add to the efficiencies in the better ability to run that agency. So I'd hate to have a legislative statute change, but not have the funds to be able to facilitate them. Mr. Chairman. is there any question?

STINNER: Questions? Senator Erdman.

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ERDMAN: Thank you, Senator Stinner. Thank you, Mr. Widdowson, for coming. I appreciate that. The handout that you gave us has on the right-hand side head inspected. The question is, are the RFL numbers included in that 3,654,000?

JOHN WIDDOWSON: No, sir.

ERDMAN: So how many head are-- you only pay an annual fee on the registry size of their lot, is that correct, \$1 a head?

JOHN WIDDOWSON: Yes, sir.

ERDMAN: So if we added that in, how many head would that be?

JOHN WIDDOWSON: I misspoke. They are in there. I apologize.

ERDMAN: Oh, they're in there?

JOHN WIDDOWSON: They're in there, yes. I apologize.

ERDMAN: OK.

JOHN WIDDOWSON: Yeah. So-- so the-- like for fiscal year '20, it was 1,066,000 head is what went through the RFL audit program.

ERDMAN: So I see in the Red Book here that it says here for the registered feedlot in '20, '19 and '20 it was 1,066,000 and then '21 this must be an estimate isf 954,000. So they must have-- did one of the registered feedlots drop out or did they change their registration?

JOHN WIDDOWSON: Yes. The the registered feedlot list changes throughout the entire year. Yeah. People come and go.

ERDMAN: All right. So you're aware, I'm sure you're aware of the bill I have introduced that would remove the registered feedlot program. In your opinion, how much revenue would that generate if the registered feedlot wasn't afforded the opportunity to pay 40 cents a head and had to pay the dollar like everyone else? What would that be?

JOHN WIDDOWSON: So basically, what would be the fiscal note on LB614?

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ERDMAN: What kind of revenue would you generate if the registered feedlot program goes away?

JOHN WIDDOWSON: OK, the net revenue, once you do the expenses-- you want just the revenue or you want expenses?

ERDMAN: I just want the revenue for now.

JOHN WIDDOWSON: OK. The revenue is going to be about \$650,000 because you--

ERDMAN: 650

JOHN WIDDOWSON: You've already got the \$1,066,000 taken in.

ERDMAN: Correct.

JOHN WIDDOWSON: You're going to then inspect another million. So we're making the assumption that the feedyards are going to do two terms.

ERDMAN: OK.

JOHN WIDDOWSON: OK? So you're basically going to have another \$1,066,000 in revenue. You will then have to back out roughly 450,000 head that were triggered to be inspected into the RFL program that no longer will have to be inspected. So that-- that \$1,066,000 subtract that 425 gives you a net of \$650,000 additional revenue than what you were already getting.

ERDMAN: Explain what those 425. You lost me somewhere.

JOHN WIDDOWSON: There is a statute requirement that cattle going into an RFL have to be inspected going into that RFL. Roughly based upon our numbers off the database, that would be roughly 425,000 head that we inspect today because of the statutory requirement to go into the RFL. If there is no more RFLs, those cattle then would not need to be inspected. So we would lose the revenue off that 425,000 head.

ERDMAN: Wouldn't those cattle have to be inspected when they move into the RFL, all of them?

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JOHN WIDDOWSON: No because there's no RFL program anymore. So they will be inspected, going out, not going in.

ERDMAN: OK. So 600, you're saying 600,000.

JOHN WIDDOWSON: Roughly 650,000 would be the net additional revenue generated by the removal of the RFL program.

ERDMAN: OK. So if we did that and we added \$650,000 to your revenue, we would also have some expenses to offset that.

JOHN WIDDOWSON: Yep.

ERDMAN: What do you think those would be?

JOHN WIDDOWSON: About \$1.8 million. We will have to hire an additional 31 staff and all the overhead that goes associated with 31 staff members because now we are inspecting an additional 1.7 million head because the original 1,066,000 head in the RFLs, we don't inspect them now. So we have no cost associated with that revenue that's generated other than a a basic cost of auditing. So when you remove the RFL program, all those cattle now need to be inspected. So you are already getting the revenue, but you weren't having the costs associated with that revenue. So now you've got the cost for two turns of cattle and then you back off the 425. So it's-- it will be a net loss of about \$1.2 million to the agency if the RFL program goes away.

ERDMAN: So what does it cost you today to inspect one cattle?

JOHN WIDDOWSON: It's roughly in that \$1.25, \$1.27-- \$1.25, \$1.27.

ERDMAN: OK, so what you're saying is that 31 more employees to inspect that million head.

JOHN WIDDOWSON: Million seven.

ERDMAN: OK.

JOHN WIDDOWSON: So how that was figured, Senator, is that we inspected 3.6 million head last year with 48 full-timers and 24 part-timers. That averages out on a full-time basis that each full-time employee inspects about 77,000 head. So when you add an additional 1.7 million

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head divided by 77, that gives you the number of additional employees that you will have to-- have to have.

ERDMAN: I'm having a little trouble figuring that out. So you have one-- you have 1.7 million head

JOHN WIDDOWSON: Yep.

ERDMAN: You said \$1.25 a head. That's \$2.1 million. All right. And you're going to double-- you're going to double the inspection fee for the registered feedlot program. You collect now a million dollars.

JOHN WIDDOWSON: We already collect that.

ERDMAN: OK. And you're going to collect \$2 million because you're going to inspect them twice. You're going to inspect them twice. Your assumption it's two times. It's probably more like 2.5 times. So I don't see how you can be behind the eightball that far when the revenue you're going to collect is going to be nearly the same as the amount you're going to spend to do it.

JOHN WIDDOWSON: But the rev-- the, the change to the additional revenue is not going to be this because we're already getting the million in. So if the RFL program goes away, what's the additional revenue? It's only \$650000.

ERDMAN: No. You're inspecting a million now through the registered feedlot program.

JOHN WIDDOWSON: Yep. And we're already getting that revenue

ERDMAN: All right.

JOHN WIDDOWSON: Yep.

ERDMAN: And so if we remove the registered feedlot program and they turn over two and a half times--

JOHN WIDDOWSON: Yep.

ERDMAN: --that's going to be 2.5 million head.

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JOHN WIDDOWSON: Yeah, I used 2 million, but we can use-- we can use [INAUDIBLE]

ERDMAN: Two million, use 2 million.

JOHN WIDDOWSON: Yeah.

ERDMAN: You're going to collect a dollar a head on every one of those.

JOHN WIDDOWSON: Um-hum.

ERDMAN: That's \$2 million, right?

JOHN WIDDOWSON: Yep.

ERDMAN: And you said it cost \$1.25.

JOHN WIDDOWSON: I figured that's roughly the cost. Yes. But I figured up what the additional 31 employees to do the additional 1.7 million head that we would have to inspect. That's where the cost structure comes from.

ERDMAN: So you currently have 48 full-time and 24 part-time and you inspect 3.7 million.

JOHN WIDDOWSON: Right. So we're going to add 1.7 million onto that.

ERDMAN: All right. So what you're saying is that with those employees you currently have, you're going to have to add 31 to add another million head--

JOHN WIDDOWSON: Million seven.

ERDMAN: --when in fact you're already inspecting 3.7million with 48 full-time people.

JOHN WIDDOWSON: Um-hum.

ERDMAN: That doesn't make any sense.

JOHN WIDDOWSON: If you take the 3.7 million head and divide it by 48 staff members, it's roughly 77,000 head.

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ERDMAN: That's right.

JOHN WIDDOWSON: Yeah. So you take 1.7 million head of additional inspections divided by 77,000, it's roughly 20, 22 inspectors. And for every two full-time inspectors, you have one part-time. So that's 33 additional employees.

ERDMAN: OK. I'll work on that.

JOHN WIDDOWSON: Thank you.

STINNER: Additional questions? Senator Clements.

CLEMENTS: Thank you, Mr. Chairman. Thank you, Mr. Widdowson. In our committee discussion, we're talking about the EID, there was a concern that the EID may not work in some remote places where there is no Internet or cell phone coverage. The-- are you confident that that would work statewide in all these ranches?

JOHN WIDDOWSON: Yeah. The the electronic tag in the electric identification system will not require Internet. It's just a basically the reading of a barcode or a 16-digit number. If we go to any e-inspection, the producer will actually be responsible for generating or providing us that number.

CLEMENTS: They would have to have a device that reads--

JOHN WIDDOWSON: That's correct.

CLEMENTS: --the code.

JOHN WIDDOWSON: Yep. There's over 2 million head of cattle today in Nebraska's cattle inventory or herd that are already utilizing EIDs. And the EID e-inspection is absolutely a voluntary program. It's just another form, another tool, another vehicle to provide inspection for.

CLEMENTS: OK, so it doesn't use cell phone or anything. How close to the animal do you have to be to get the ID to read on your device?

JOHN WIDDOWSON: Great question. There's two. There's a low frequency and a high frequency tag. Low frequency, you basically have to touch the reader to the tag. High frequency, you can be hundreds of feet

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away from them. You know, high frequency you could have a, a cattle pot full of those cattle. And you just kind of shoot like a radar gun at it and boom, they're all there. Now, there's different cost structures with all that. But that would be up to the choice of the producer if they so choose.

CLEMENTS: The producer stands the cost of that, the device on the cattle.

JOHN WIDDOWSON: Yep, yep.

CLEMENTS: And the reader.

JOHN WIDDOWSON: Yep. That's going to be their, their cost and they're going to be utilizing usually that technology themselves for their, their own benefit also.

CLEMENTS: But then you're saying the agency would have some expense as well. What is that just to bring in the data?

JOHN WIDDOWSON: Yes. We will-- we will have to finish developing our client portal system. So the object will be as the, the producer will do their own inspection. They will provide the data points. They will then log on to the Nebraska Brand Committee through a client portal. They will then upload their information. There'll be criteria that they will have to meet all these certain criteria and then there can be an inspection form then generated based upon that. So it will be finishing the development software development of the client portal. It'll be the development of the database system that will be held on a-- on a third party outside of our agency for the data. And then there will also be just basically data development, software development for our iPads to be able to facilitate all those EIDs.

CLEMENTS: What's the benefit for the producer having to spend this much money on the ID? Why would they do that?

JOHN WIDDOWSON: Why would a producer spend the money on that?

CLEMENTS: Yeah, rather than have an inspector come out?

JOHN WIDDOWSON: Well, we foresee that an e-inspection is going to hopefully be able to cost considerably less than a physical inspection

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because we will not be sending a person out, won't have time, mileage, all those things. And so we feel like they're going to be incentivized to be able to do an e-inspection. More likely, the low-hanging fruit of this program will be the producers that are already utilizing EIDs and already have that equipment. This will be just an add-on to what they're already using.

CLEMENTS: But are you still going to charge them a dollar for each head that they report?

JOHN WIDDOWSON: That is not our-- that is not the committee's goal. The committee's goal is to provide to our producers a cheaper form of inspection.

CLEMENTS: OK. And in your bylaws, do you have the ability to vary your fees by the type of inspection?

JOHN WIDDOWSON: That, Senator, great question. And that, that language is in on those legislative bills that are going to be in front of us-- in front of the Ag Committee on Tuesday.

CLEMENTS: All right. Thank you.

STINNER: Any additional questions? Senator Wishart.

WISHART: Thank you for being here. How many cattle were reported missing this past year?

JOHN WIDDOWSON: I didn't bring those exact numbers with me, and I apologize, but I can sure get them-- get them for you. I have all that report. I just don't have it at my fingertips.

WISHART: Can you-- can you give me a ballpark of what it typically is in the state?

JOHN WIDDOWSON: You know, I think this year there was maybe a thousand head or something like that that were-- that were classified as estrays, Senator. That is one thing that over the last couple of years, we're going to do a much better job of creating that data. A lot of times our staff goes out and fixes those problems and never tracks that data. They go out. And so being able to quantify what those, those, those estrays or those things that we've fixed, we're

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going to do-- that is already in place that we're going to do a much better job. We are actually doing some software development so that when an inspector goes out now and they actually fix something, a lot of time, we go out to a place and do an inspection. And two of the neighbors calves are in there. And the neighbor is there helping the guy do it. And so they just sort them off, whatever. We don't track those things. But now we are building in our iPad software where they can actually click a button and say there was a commingling, this is how it happens so that we can track the actual estrays and things like that.

WISHART: So what percentage in terms of, you know, when you have a total number of cattle missing, what percentage is cattle that was actually stolen?

JOHN WIDDOWSON: Stolen? It would be a smaller percentage than cattle that are just missing or mixed up, yes. But I, I have all that information. I generated it for the task force and it's readily available, Senator. And we will get that to your office.

WISHART: OK.

STINNER: Senator Erdman.

ERDMAN: Thank you, Senator Stinner. Senator Clements was questioning, brought to mind a question I have. So if I'm the producer and I'm responsible for doing the reading of the ear tags, is it possible that I could fudge those numbers and change those numbers? Who would check to see if I told you the truth? If I'm-- if I'm being dishonest and I want to steal cattle, I could put numbers in the system or whatever I could do. So what's, what's the precautions that people couldn't put in numbers that weren't real?

JOHN WIDDOWSON: Great question, Senator. And what the process will be is that if you want to utilize e-inspection and EIDs, you will have to enroll those cattle with us. So you'll have to say these hundred head of cattle; this is my proof of ownership; they might have a brand on them already; here's my bill of sale; and here is the 100 EIDs that go to those, those hundred head. We will then enroll them. Two years later you say out of those hundred had these 50, these 50 numbers I want to sell to me, from you to me. The database will look at it and

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say, yes, Senator Erdman owns those 50 head, he has evidence of ownership, everything's legit. We'll pass those EIDs on to John Widdowson and that's it. Now, we will do audits just like an RFL audit to go back and do spot checks to see that that is going on. But the 16-digit number is not tamp-- I mean, if somebody messes up the numbers, they're not going to match the numbers that are already been enrolled.

ERDMAN: OK. So how far away can you inspect those, will that reader catch it? Like I'm out in the pasture and the cattle get mixed up, you know, with my neighbor? That happens a lot.

JOHN WIDDOWSON: All depends on if you have high frequency or low frequency. Low frequency, you're going to have to run them through a chute and through an alleyway.

ERDMAN: OK. But if I have high frequency, how close do I have to get?

JOHN WIDDOWSON: Oh, I'd say it's probably 100 yards, you know, that you can get to them.

ERDMAN: OK. Thank you.

STINNER: Any additional questions? Obviously, I have a list of those, but thank you for coming in. And I truly mean that. It's a-- it's a haul to come in here and thank you for this. This really answers the question that we continue to try to-- try to mine out of things is how much efficiencies were going to be derived from the paperless system. So that's helpful. The only question I have on this is, did the overtime go down or is it about the same?

JOHN WIDDOWSON: The overtime, Mr. Chairman, has gone down. We are, I will say, at the employee number of 80. That's where we were on the last two years and we felt extremely comfortable with that to provide good service. It's a balancing act because our number one goal is to not impede commerce, absolutely not to impede commerce, but we also have to be very efficient. We can't have more staff on hand just to make everybody feel good and just be real quick. COVID showed us that 80 people probably is good in normal situations, but COVID really showed us that we-- our margin of error for staff is probably too tight. But how could we have ever predicted at sometime you could have

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10 or 15 percent of your staff on the sidelines in quarantine? The reason we got through that, COVID with, with our staff margin being very tight, was that we just had some auction markets and packing houses close. So we-- the workload actually went down with-- when our staff went down. So that's how we were able to skim by and get through it. But comp time, Chairman, to get to your answer, I thought when I was on this committee that we just wanted to eliminate comp time completely, just get rid of it. But after you analyze the cost of benefits and additional employees that you would have to have to get rid of comp time, there is a good level of comp time that is cheaper than having more full-time employees, more benefits, more iPads and all that kind of stuff. So we are constantly, constantly monitoring the comp time, but that is our wiggle room that we get through season-- peak seasonal things that we have to have.

STINNER: Thank you. I'm just going to revisit some numbers that we've worked with in the past. And I think last biennium we requested \$635,000 and seven hundred and-- five hundred and seventy eight in the next part of the biennium. And that had to do with the automated data system that we were putting in, trying to go from paperless to iPad that you testified to. I think that the committee had a problem with the ongoing cost associated with that. We defined ongoing cost as support, time four full time staff to handle information technology needs and supervision, the transition to automated system. Did those four time folks get hired or they somehow? How did you get all of that done?

JOHN WIDDOWSON: That was part of our reorg that we did. You know, we now have an IT coordinator, an assistant IT coordinator, and we've also implemented four district supervisors. So there are six new positions that we didn't have before, but that was a combination of, of the technology implementation. And that was also a, a operational thing. All of our investigators used to do all of the supervisory duties of our inspectors. And our investigators need to be investigators. They don't need to be working on daily schedules. So that was a combination fix for getting our investigators doing investigative work and also having supervisors that help with the technology flow.

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STINNER: So to say it different, your workaround for that was to use existing personnel, train those existing personnel, hire one system coordinator, if--

JOHN WIDDOWSON: Actually, our assistant ID coordinator is one of our supervisors. But we did hire from outside the agency for the IT coordinator. The first couple years she was contract labor so that came out of our operational side of our budget. We then brought her in-house and now she's against our PSL.

STINNER: OK. So the \$280,000 also was designated as additional operating costs for the system with primary costs related to the purchase tablets, necessary technology. But there will be ongoing cost associated with just running the system. What number is that now? I mean, is there-- there obviously is a maintenance cost, et cetera.

JOHN WIDDOWSON: Yeah.

STINNER: Do you have that number or do you know that number?

JOHN WIDDOWSON: Yep. The maintenance costs, this is all with Nebraska Interactive now, and that is at 6 cents per head per inspection.

STINNER: Six cents per head, OK.

JOHN WIDDOWSON: Yep, per inspection. So that is what our, our fee is every year to monitor, update, keep all of that. But that is what Nebraska Interactive.

STINNER: And I could take that 6 cents times 3.6 million or--

JOHN WIDDOWSON: Yep.

STINNER: --some number. OK.

JOHN WIDDOWSON: Yep. And that would be the cost associated with the maintenance fee of, of the electronic system.

STINNER: All right, very good. Actually, I saw where the actual numbers came in and I think I have the right numbers to look at what actually happened in '19 and '20. We actually got revenue of \$5.9

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million. Now we projected an average of about \$5.4 million, five point. And it varies from 5.1 to

JOHN WIDDOWSON: There's a big--

STINNER: --5.5 or whatever. But interestingly, this last year we hit \$5.9 million. And as I started to investigate it, we came up with this miscellaneous adjustment. And I'm asking what miscellaneous adjustment meant. And I guess I found out from my analyst it was credit card charges that either hadn't been run or were pulled over through one year to the next. And--

JOHN WIDDOWSON: So, Mr. Chairman, that number has been a monkey on my back for a while here. It causes a lot of questions. That miscellaneous dollar amount of that, roughly six hundred fifty-some thousand dollars, about \$65,000 of that was interest revenue, but also about \$560,000 of it was when we started the implementation of the electronic system in late '17, '18 and '19, the revenue that we were running through credit cards and ACHs was getting dumped through ne.gov. And we had those funds in our account, but they weren't getting coded properly due to the technology system. So we've been working very closely with Ron Carlson, DAS, and we got to some point in time. We're putting the puzzle backwards to see which buckets all that revenue come out of. We couldn't put that puzzle back together, but it was just sheerly inspection revenue. We just didn't know if it was local or packing houses or stuff like that, but it was revenue. So we was to clean up so when we were moving forward in fiscal year '20 that the revenue was, was accurate.

STINNER: So if I was going to go back and take a look and I saw where the year before was only \$5.1 million--

JOHN WIDDOWSON: Yes.

STINNER: --I could take this out we'd be about where we think we should be, which is about 5.4.

JOHN WIDDOWSON: You would probably want to spread that \$600,000 miscellaneous back a year and, and do a little bit of averaging, income averaging a little bit.

STINNER: I, I kind of did that in

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JOHN WIDDOWSON: Sure.

STINNER: --my calculations saying, OK, it probably went across-- either revenue was moved to this year and heightened it

JOHN WIDDOWSON: Yeah, yeah.

STINNER: --or so-- or so something happened. So that, that, that's a good explanation for that. OK, so we have a-- we have right now legislation that's pending. We don't know if it's going to pass. Obviously what the committee has to deal with is what's in front of us right now. So I have approximately \$3 million, is that correct, in the-- in the reserve?

JOHN WIDDOWSON: Yep, yep, 2.972 actually and some change, yep.

STINNER: OK, so I'll just use \$3 million.

JOHN WIDDOWSON: Yep.

STINNER: So that's a portion of this. And what you're asking the committee to take a look at is funding a technological electronic identification system, timekeeper per one hundred and fifty five and ninety five one time cost I presume for that, but there will be ongoing cost as it relates to maintenance or--

JOHN WIDDOWSON: Yep, yep. And I also will say, Mr. Chairman, the committee in their strategic plan, this won't be the last two technology upgrades. It'll be-- for the next biennial budget, you know, we're already talking about a logistics program, a dispatching program, those kind of things that we're going to just be additional tools to our agency. So as I said when we discussed about the cash reserve, we want to maintain a certain dollar amount for operational reserves. But the rest of that, the committee is trying to use that as a reinvestment back into the agency to make us more viable and keep up with, with our industry. And if we have plenty of those funds to reinvest and we have our cash reserves to cover operational, that's when the committee will then say maybe we can lower the fees to drop our cash reserves back.

STINNER: So I missed your operational reserve. How much did you say you wanted to keep?

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JOHN WIDDOWSON: We're, we're trying to keep around 40 percent of our-- of our operational one-time budget. So if we're at five point nine, I'll use your math around it to six million, we'd want to keep about two point four million in the cash reserve just for operational market fluctuations.

STINNER: OK. Actually, our expenditures were two point or five point two three three million dollars, which is about the appropriation amount. But if we granted this request and the PSLs and you're saying these are really inspector positions, is that what I have?

JOHN WIDDOWSON: It's, Mr. Chairman, it's truly just to maintain the current complete staff that we have today, the 80 employees.

STINNER: That's what I have written down. And then you have staff increases and salary increases over and above that. Is that--

JOHN WIDDOWSON: We have no staff increases. We just have the help--

STINNER: Excuse me, salary and [INAUDIBLE] benefit.

JOHN WIDDOWSON: Yep, yep, yep. So basically the PSL limitation increase is just to get us to status quo.

STINNER: OK. So if I added just the staff-- staffing question that you have two hundred and fifteen that puts you equal to that, plus the salary increases, I'm about 370,000 of additional operating expenses that I can add to the five million two thirty-three which comes up with five million six oh three, which is just a-- probably a hair above your average of 5.4 that you bring in. So you've got about a \$200,000 deficit that you would run--

JOHN WIDDOWSON: Yep.

STINNER: --under that operating and we could even add the one fifty-five into that. That would deplete your fund even a little bit further and faster. One of the problems that you and I both know, cattle aren't growing. I mean, we're not growing numbers. So the revenue probably will stay a fairly stagnant number without some kind of fee increase.

JOHN WIDDOWSON: The head counts for sure, yeah.

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STINNER: Now, if we were able to go to the other 10 cents, then you'd probably be at that 5.8 million, which--

JOHN WIDDOWSON: Yeah.

STINNER: --would support what you're trying to do on an ongoing basis. All I'm trying to do is square up--

JOHN WIDDOWSON: Absolutely, break even.

STINNER: --to make sure we got sustainability and make sure it makes sense.

JOHN WIDDOWSON: Absolutely. Yes, sir.

STINNER: Unless I'm-- slipped a digit somewhere.

JOHN WIDDOWSON: Rough [INAUDIBLE].

STINNER: So I'm using an historical number that you ran, 5.2 million in cost. I'm adding what you're asking for to maintain your staff levels, trying to give salar-- health insurance and salary increases and probably take a look at, and this is what the committee needs to discuss, the technology growth aspect. I still don't have a real good fix on that as it relates to the demand for the industry and the cost to the industry and all the rest of that. I'll take, take your word for the fact that there's 2 million cattle out there that are still, are using that today.

JOHN WIDDOWSON: Yep.

STINNER: So that would be some indication that maybe this is something we can look to in the future. So even though we have a small deficit, you still have the ability to raise another dime under the current statute, which would kind of square your numbers. That's how I see it today.

JOHN WIDDOWSON: You're spot on, Chairman.

STINNER: OK. Because before we were at \$6.1 million in asking appropriations and that-- there wasn't--

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JOHN WIDDOWSON: Yep.

STINNER: --the capacity to do that at, at the number that you're bringing in just wasn't there and didn't make much sense.

JOHN WIDDOWSON: Without a major fee increase, yeah.

STINNER: So that all said, under your request, under, under the new request, just refresh my memory. I'm a little bit vague on some of the details. Are we asking for a fee? Is the net effect going to generate additional fees if this bill passes that apparently you all have put together in Ag?

JOHN WIDDOWSON: Well, we have LB571, LB572, and LB614.

STINNER: OK. Tell me-- tell me which one you favor and which one that [INAUDIBLE]

JOHN WIDDOWSON: Well, LB571 is the bill that would basically implement an RFL backgrounding program, just like the RFL program. LB572 would basically be the task force new version of what was LB1200 last year. And then LB614 would be Senator Erdman's bill of, of the elimination of the RFL program. So LB572, there are a lot of things in LB572 that are not controversial, that are not fee oriented, that are very good changes for the efficiency of the agency going to mileage, giving us-- giving us a 48-hour notice for inspections, getting the waiverable citation things, lots of cleanup things that are in there. But there is also tweaks to the fee schedule. And as an agency and as a staff member, you know, I'm just here to bring, bring facts and trying to square the budget up, as you would say. And so there will be new cap limits based in LB572 that will give us the ability to raise certain fees. But there's also a reduction in certain fees far as the RFLs and stuff like that. So it's just a reallocation of where the revenue is going to come from based upon LB572.

STINNER: So net-net there's no increase in cash that's going to run in. Is it going to still be at 5.8 million?

JOHN WIDDOWSON: No. There will be a-- there will be an increase in potential revenue with LB572, yes.

STINNER: OK. Do you have a feel for what that is?

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JOHN WIDDOWSON: When I did the fiscal note for LB572, I capped-- I put all the other fees at the cap, but I had based upon Senator Halloran's LB572 for the next two years, the inspection fee was going to go from a dollar to 95. When I ran the histor-- previous year's numbers with those new fees, Senator, we generate about 5.92 of revenue. But also in LB572 after the-- after FY '22 and '23, the cap on inspection goes to a dollar fifty. So there's a wide cap there that the committee could go up to on inspection fees to generate money going forward. But that's also changed the brand renewal from \$50 to \$200, you know, which generates a lot of revenue so.

STINNER: Yeah, fees increases are a little hard to get by the Legislature as well as the Governor. So that'll be an interesting subject. But for today's purposes, you've answered quite, quite a few of my questions. Any additional questions? Senator Erdman.

ERDMAN: Thank you again, Senator Stinner. So, Mr. Director, let me ask this question. You said that the fee can go up to \$1.50 for inspection. That'll be the maximum.

JOHN WIDDOWSON: That's what-- that's where the cap is.

ERDMAN: What would the maximum be under LB572 for an RFL?

JOHN WIDDOWSON: Fifty percent is how that, that language is wrote in there. So the-- if you're at \$1.50, the RFL audit fee would be at 50 percent of that so 75 cents.

ERDMAN: So currently the RFL is paying \$1 for registered capacity, right?

JOHN WIDDOWSON: That's correct.

ERDMAN: And LB572 is going to take that down to 50 cents.

JOHN WIDDOWSON: Actually, the RFLs are-- their audit fee mirrors physical inspection. So whatever the physical inspection is, that's what the RFL audit is based upon current statute. So if we go from \$1.10, the RFL audit would go to \$1.10. LB572 converts that or separates that and goes to a percentage basis.

ERDMAN: Correct.

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JOHN WIDDOWSON: Yep.

ERDMAN: So if LB572-- if LB572 was in place.

JOHN WIDDOWSON: Yep.

ERDMAN: And you're at \$1.50 for inspect my cattle, the RFL would be 75 cents?

JOHN WIDDOWSON: That is correct.

ERDMAN: So if the RFL runs their calves through that-- their cattle through there two and a half times, they're paying about, what, 30 cents?

JOHN WIDDOWSON: Well, you'd-- it'd be a, yeah, two and a, you know, you divide the 75 cents by two and a half.

ERDMAN: So if you're collecting a million dollars today--

JOHN WIDDOWSON: Um-hum.

ERDMAN: --from the RFL is going forward under LB572, how much are you going to collect?

JOHN WIDDOWSON: Roughly \$800,000 at 70-- you know, if it was-- if your cap was maxed, but it's not. We're at 75 cents today or excuse me, by LB572, they're backing it from a dollar to 95. So way LB572 reads today, the RFL price will be at 47.5 cents.

ERDMAN: Right.

JOHN WIDDOWSON: So on a million head, it's going to-- it's going to go from generating \$1,066,000 to somewhere between about to \$450,000.

ERDMAN: So currently today, if an RFL runs cattle through two and a half times, they're paying about 40 cents a head because they pay a dollar?

JOHN WIDDOWSON: That's correct.

ERDMAN: So under that scenario, they pay about 20 cents.

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JOHN WIDDOWSON: That's correct. It's strictly a 50 percent reduction of their fee.

ERDMAN: Right. OK. So follow me for a minute here. So the RFL is going to reduce their fees by that significant amount, be \$500,000 or more and we're going to make up this \$500,000 from the rancher and the cattle producer in raising the fees to register their brand, charging them mileage to go inspect their cattle, and other fees that you're going to raise. Is that what you're saying?

JOHN WIDDOWSON: That will be-- that will be how the committee will have to try to balance their budget with other fees, yes.

ERDMAN: OK. So you're lowering the amount the RFL pays and raising the fees, not necessarily the inspection fees, but all the other fees on the-- on the cattle producer and the individual cattlemen, right?

JOHN WIDDOWSON: Yep. That has been-- that has been the talking points in the debate for numerous years of who pays what and what fees subsidize what. And as we'd said earlier, the inspection fee cost of service is about \$1.25, \$1.27 and we're, we're charging \$1. So if you wanted to make that service just to break even, you should realistically move that cost to \$1.27. But it's, it's not. It's at \$1. So for every head that we inspect, we're losing 27 cents. So it's getting subsidized. The inspection part is getting subsidized by other fees that we collect. And so you have some fees that are profit makers, some fees that are break evens, and some, as an inspection, it's, it's a net negative.

ERDMAN: So you're saying that the, if I follow what you're saying, is the RFLs are subsidizing those other inspections, because if you didn't have the RFLs contributing what you don't inspect, you'd have to raise their fees. Is that what you're saying?

JOHN WIDDOWSON: The RFL program is a profit center for the agency.

ERDMAN: Correct.

JOHN WIDDOWSON: Yes.

ERDMAN: So that's what I'm saying. So you collect a dollar from the RFL in a registered capacity--

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JOHN WIDDOWSON: Yep.

ERDMAN: --doesn't cost you that much to do the audit.

JOHN WIDDOWSON: That's correct.

ERDMAN: So you're using that money to keep the the the cost down to the other producers. Right?

JOHN WIDDOWSON: That is correct.

ERDMAN: OK. So the RFL is, is paying the dollar not only for the purpose of not having to inspect, but here's the advantage. The RFL never has to inspect those cattle the day before they ship them. They have to run them out of the pen, run them down the pen, lose 2 or 3 percent shrink to inspect those cattle. They might lose \$30, \$40 a head to inspect them. Right? They get that, they get that advantage. So what the problem is here is the RFLs don't understand it's a we thing. It's not us against them. All right? So for that effect-- for that to take effect, the RFL pays a dollar, don't have to inspect. You don't have to take the shrink. All right? So if that goes away, then they got to inspect. Now, they have the shrink to pay for, which is \$20, \$30 a head. And they're willing to give up 20 cents a head and afford to lose the opportunity to have those cattle inspected and ship any time they want. There are so many more advantages in the RFL than that audit costs them. I can't believe they even brought this up because what you're going to do is you're going to make the RFLs pay less. And all those people who are my constituents who raise cattle are going to pay more. That's, that's a total sum of it. There's no other way to describe that.

JOHN WIDDOWSON: Including myself.

ERDMAN: Including you.

JOHN WIDDOWSON: Yep.

ERDMAN: Now, that doesn't make any sense to me.

JOHN WIDDOWSON: As the executive director of Nebraska Brand Committee, I represent everybody.

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ERDMAN: I understand.

JOHN WIDDOWSON: And there's people that-- the RFLs, there's a certain segment of the RFLs that feel like they pay too much for the service that they're being provided.

ERDMAN: They don't understand the benefits, and I just described some of them to you.

JOHN WIDDOWSON: And I, I understand and agree with those benefits.

ERDMAN: Right. And so it's a situation where it's us, we and them together. Because if we don't have RFLs, we don't need to raise any cattle. We don't have feedlots. In the feedlots don't have the producer producing the cattle, they don't need to have a feedlot. It's us together. We work together. But that's not the way it's been. I went to some of them workshops. I've done.

JOHN WIDDOWSON: Yeah, and we appreciate your involvement.

ERDMAN: And there was no-- there was no compromise there. And this doesn't make any sense to me to raise the fee on the people that I represent for two registered feedlots in my district that get a break. That doesn't make any sense at all. So when we go forward and you put this, this electric identification in place, how many employees are we going to eliminate?

JOHN WIDDOWSON: That question is a great question, and the answer to that question will be, is the adoption rate of the EID program. Where it's going to be voluntary, we're going to be at 80. We're going to be at 80 staff members for the next two years to inspect the head. But if that-- if that program gets accepted, if it's an-- you know, if 5 percent of the head start doing that and then next year it's 12 percent, it will only be at the adoption rate of that. And time will only tell. We cannot predict what that will be.

STINNER: Do you have a feel for what the extra cost, the ongoing cost is going to be as, as the adoption rate goes up? Does that increase your cost as well?

JOHN WIDDOWSON: I would think, Mr. Chairman, there would be some small variable cost with that, but I think it's going to be majority of it's

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going to be up-front cost, you know, to, to-- you know, it's like right now with our, our inspection fee, there's not a lot of maintenance cost to it. It was just it was a self-funded model with Nebraska Interactive, and that's how we paid for it.

STINNER: So you're not going to have to-- have to add technology and people--

JOHN WIDDOWSON: Correct.

STINNER: --that do the technology. OK.

JOHN WIDDOWSON: It's--

STINNER: I'm sorry, Senator, I interrupted you.

ERDMAN: I was done.

STINNER: OK. Additional questions? Seeing none, thank you for your time. Drive safely.

JOHN WIDDOWSON: Appreciate it. Thank you very much, everybody.

STINNER: Absolutely. Are there any additional proponents? Would you clean the chair, please. Any additional proponents? Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, are there any letters or any-- no letters of support? So that concludes our hearing on Agency 39. We will open with Agency 60, Nebraska Ethanol Board. And we do have a letter that says they are OK with the numbers. So is there any additional proponents? Seeing none, any opponents? Anybody in the neutral capacity? That concludes our hearing on Agency 60. Agency 56, Nebraska Wheat Board has also sent in a letter supporting our conclusions on their budget. Any proponents? Any opponents? Anybody in the neutral capacity? That concludes our hearing on Agency 56, Wheat Board. Agency 61, Dairy Industry Development Board. I don't see anybody here, but this will open the hearing on that. Are there any proponents? Opponents? Neutral? Seeing none, that concludes our hearing of Agency 61. Agency 86, Dry Bean Board. We have a letter supporting our budget conclusion. Any proponents? Opponents? Neutral? That concludes our hearing on dry beans, Agency 86. Agency 88, Nebraska Corn Board also sent in a letter. Any proponents? Opponents? Neutral? That concludes the hearing

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on Agency 88, Nebraska Corn Board. Agency 92 there was also a letter sent in. There's nobody here. That concludes our hearing on 92. How about Agency 95, Dry Pea and Lentil Commission? That's a new one.

ERDMAN: I thought they'd come.

STINNER: Anyhow there is no proponents, opponents. There's nobody here to testify. So that concludes our hearing of Agency 95. Agency 97, the Hemp Commission. I thought for sure Senator Wishart would at least stand up. [LAUGHTER] There does not--

_____ : That's Justin Wayne's bill.

STINNER: There doesn't appear to be anybody here for the Hemp Commission. So that concludes the hearing on Agency 97. Agency 45 we have a letter of support from the Barbers Examination. Since nobody is in the room, we will conclude the hearing on Agency 45. Agency 30, State Electrical Board. No one's here for testimony there. We received a letter from the agency, so that concludes the hearing on Agency 30. Agency 74, Power Review Board, no one is here to. We have a letter of support and no one is here to testify. So we'll conclude our hearing on Power Review Board. Real Estate Commission, Agency 41, we got a letter of support from the agency. Again, no one's here. So we'll conclude our hearing on Agency 41. Agency 53, Real Property Appraiser Board, we've received a letter of support. No one's here to testify. So we will conclude the hearing on Agency 53. Agency 57, Nebraska Oil and Gas Commission. They're out of Sidney, by the way. There is an agency in Sidney.

_____ : Not anymore.

STINNER: I said that for Senator Erdman's benefit. Anyhow, there's no one. We've received a letter of support, no one here to testify. So we'll conclude our hearing there. Board of Public Accountancy, Agency 63, letter of support. No one here to testify. So we will conclude our hearing there. Agency 58, Board of Engineers and Architects, letter of support. We'll conclude our hearing because nobody's here on Agency 58. Agency 59, Board of Geologists, we have a letter of support and no one's here to testify. So that concludes our hearings of Agency 59. Agency 62, Board of Examiners for Land Surveyors, we do not have a letter and no one's here to testify. So the assumption is that ends

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the hearing on Agency 62. Agency 66, Board of Examiners Abstracters, no letter of support, no one here to testify. That concludes our hearing on Agency 66. Board of Landscape Architects, Agency 73, we have a letter of support. No one here to testify. That concludes our hearing on Agency 73. And that concludes our hearings for today. Thank you. This is not always this easy, Mark Kolterman, believe--