[LB713 LB759]

The Committee on Nebraska Retirement Systems met at 12:00 noon on Wednesday, January 22, 2014, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB713 and LB759. Senators present: Jeremy Nordquist, Chairperson; Al Davis, Vice Chairperson; Danielle Conrad; Russ Karpisek; Rick Kolowski; and Heath Mello. Senators absent: None.

SENATOR NORDQUIST: Happy lunch hour, everybody. We will go ahead and get started here with our first Retirement Systems Committee hearing of 2014. Today we're going to be hearing two bills. We're actually going to do them in numerical order as opposed to what was posted outside. So, Senator Gloor, LB713 will be first, and then Senator Mello's LB759. First, I'd like to introduce our committee staff. To my far right is Laurie Vollertsen, our committee clerk; to my left is Kate Allen, our legal counsel. Page today is Nathan. If you have anything to distribute, he can certainly help with that. Any testifiers, please come forward. As always, we'll take proponent testimony, opponent testimony, and neutral testimony. There are sign-in sheets in the back. If you'd complete those and give them to Laurie when you come up. Please state and spell your name for the record. Please silence your cell phone so that doesn't disrupt us. And with that, I think we will go ahead and get started. Senator Gloor.

SENATOR GLOOR: Thank you, Senator Nordquist, and good afternoon, committee members. And I'm glad to be here to present LB713. My name is Mike Gloor, G-l-o-o-r, District 35. The Nebraska Capital Expansion Act was adopted in 1978 and was designed to provide additional capital to financial institutions to help meet agricultural and housing credit needs. Currently under the Nebraska Capital Expansion Act, banks, capital stock financial institutions, and qualifying mutual financial institutions, and I will, in the interest of both time and tongue-tying, generically classify them as savings and loans are eligible to obtain time deposits open accounts in the amount of $1 million from funds available for investment by the State Investment Officer provided they meet the rate and other requirements established by the act. LB713 would seek to increase from $1 million to $6 million the maximum amount of time deposit open accounts made available to banks and S&Ls willing to meet the rate and other requirements of the Nebraska Capital Expansion Act. LB713 would allow any bank and S&L accepting deposits in the amount of $1 million from the initial offering of deposits to then make application for additional funds, if they wish, in the amount not to exceed each bank and S&L's pro rata share of the remaining funds from the initial offering, or $5 million for each bank or S&L, whichever is less. While bank participation in the Nebraska Capital Expansion Act has declined during the economic downturn, as demand for loans strengthens more banks will be looking for additional sources of liquidity to continue to satisfy the loan demand for their communities. Providing additional access to time deposit open accounts in the manner proposed under LB713 will assist banks seeking additional liquidity for lending purposes. The Nebraska Bankers Association has been approached by a number of their members, number of banks, participating in the Nebraska Capital Expansion Act who generally maintain the maximum amount of $1 million of deposits available under the act. The banks have indicated they would welcome the opportunity to bid for additional deposits. The provisions of LB713 would allow any bank that initially accepts the maximum funds available in the initial offering to access up to an additional $5 million from the State Investment Officer. I just got the fiscal note and a chance to review it a couple of hours ago and would say as a reminder, this is an existing act and the intent behind it when it was introduced in 1978 was to help the ability of Nebraskans to expand their businesses, buy homes, build homes. There's a multiplier effect here and that was the reason that it's been in existence since '78. Obviously, there has been an increase in the cost of doing business, cost of construction, in a number of ways. It seems appropriate to make some increase. The number that we picked was a $5 million increase so that we can talk about an additional $6 million. Will everybody choose to go up to that amount and will that total amount be made available? That certainly is going to affect whether there's a $1 million increase, as is suggested by the fiscal note. It's also worth pointing out that if every existing financial institution that's eligible took advantage of the $1 million that currently is eligible, we'd be talking about $200 million. So we're not likely to see every bank take advantage of that opportunity, just as not every one of those institutions has taken advantage of in the past. And it might be nice if that actually happened. It means that our economy is booming to the point where there's a real need for liquidity throughout our communities. And with that, I'd be glad to answer any questions. And there will be other testifiers behind me, obviously. [LB713]

SENATOR NORDQUIST: Thank you, Senator Gloor. Questions from the committee? I just have one quick one and maybe the representative of the banks can speak. Is there a difference in demand between large banks and small banks, and kind of this one-size-fits-all amount, does that...what's the... [LB713]

SENATOR GLOOR: I don't know the answer to that question, but I'm sure... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

SENATOR GLOOR: ...that the testifier... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

SENATOR GLOOR: ...from the Nebraska Bankers Association,... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

SENATOR GLOOR: ...I'm sure that they'll have a history behind it. [LB713]

SENATOR NORDQUIST: Okay. Great. Any other questions? Seeing none, thank you. [LB713]

SENATOR GLOOR: Thank you. [LB713]

SENATOR NORDQUIST: Yes. Before we get our next testifier, I'm a little rusty starting the year out, forgot to introduce my committee members. We have Senator Rick Kolowski from Omaha, Senator Al Davis from Hyannis, Senator Danielle Conrad from Lincoln. Senator Mello and Senator Karpisek I believe will be joining us at some point here. So welcome. [LB713]

ROBERT HALLSTROM: (Exhibit 1) Chairman Nordquist, members of the committee, my name is Robert J. Hallstrom. I appear before you today as a registered lobbyist for the Nebraska Bankers Association in support of LB713. I just want to note that in over 30 years of lobbying, this is the first time I've had the pleasure, it's my maiden voyage, before this committee. Had another lobbyist suggest they weren't surprised because I look like I've never missed a meal. (Laughter) So at any rate, there's only so many ways that you can spin the die on this bill. Senator Gloor has done a nice job in setting forth exactly what the bill is designed to accomplish, which is to provide additional access to funds under the Nebraska Capital Expansion Act for financial institutions that are eligible to accept public funds in the state of Nebraska. As he indicated, it would increase the $1 million maximum, which was set, I believe, back in 2003 and has been left unchanged since that time, up to a maximum of $6 million. This issue was brought to our attention initially by Kim Schroll, who's here to testify today from NebraskaLand National Bank in North Platte. They have a bank in Wyoming that she'll tell you about that has a similar program set up. But essentially, the changes that we're proposing or the current law says each bank willing to pay the going rate and the terms and conditions of the program can access up to $1 million in $100,000 increments. This would give a second bite at the apple, if you will, to say if a bank has access to the maximum $1 million, they would be eligible on a pro rata basis for up to an additional $5 million or a total maximum cap of $6 million. I have checked with the Nebraska Investment Council representatives and I think some of the background may be also set forth in the fiscal note accompanying the bill. There are currently about a third of the banks in Nebraska that participate in the program. They access cumulatively, as of the December offering, about $33 million, and that consists of about a third of the participating banks taking $100,000. That may be a vestige of the former $100,000 FDIC Insurance coverage limits. There's about 15 banks that accept $500,000 and 20 banks currently, or a third of the participants, take the maximum one-third. If another third of those banks would take the maximum at $5 million, six or seven banks, you'd probably see an additional $30 million or $35 million outflow under this program, which would presumably be subject to that 1.5 percent differential in investment income that the Investment Council has set forth on the fiscal note. With that, I'd be happy to address any questions that the committee may have. [LB713]

SENATOR NORDQUIST: Any questions from the committee? Just on the question to Senator Gloor, any sense on...from these numbers kind of the range or the size of institutions that are... [LB713]

ROBERT HALLSTROM: I'm not privy to... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

ROBERT HALLSTROM: ...which of the banks participate. [LB713]

SENATOR NORDQUIST: Okay. Okay. [LB713]

ROBERT HALLSTROM: I just get numerical... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

ROBERT HALLSTROM: ...data from the Investment Council. I don't know whether they can share that specific information. I did not ask that... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

ROBERT HALLSTROM: ...that particular question. But I would imagine that the smaller banks are the ones that are taking... [LB713]

SENATOR NORDQUIST: Uh-huh. [LB713]

ROBERT HALLSTROM: ...more advantage of the program. [LB713]

SENATOR NORDQUIST: That would make sense. Great. Senator Davis. [LB713]

SENATOR DAVIS: You talked about the multiplier, Bob. Can you elaborate on what that might amount to in some of these communities? [LB713]

ROBERT HALLSTROM: Well, I think what you're looking at, Senator, the multiplier effect from the banking industry perspective is generally going to be predicated upon how much of those monies that they are actually able to loan into the local community, and that's going to be predicated upon what their capital or reserve requirements are. I would suspect for most community banks in Nebraska you're probably looking at somewhere between 8 and 12 percent. Some banks may be higher than that. If they're at a 10 percent reserve requirement or capital holdings, that would give them the ability to lend out 90 percent of what they're bringing in from the Nebraska Capital Expansion Act. And that multiplier then would be about ten times over, based on that computation.

[LB713]

SENATOR DAVIS: But there's nothing in the legislation that requires a loan process to be done in the state of Nebraska. So theoretically, if you've got a national bank, we might see no benefit here possibly. [LB713]

ROBERT HALLSTROM: Well, except those national banks are operating in Nebraska. That's where their home...they may not be headquartered in Nebraska but they have their facilities in Nebraska that entitle them to be eligible for the funds... [LB713]

SENATOR DAVIS: Right. [LB713]

ROBERT HALLSTROM: ...and presumably they're making the loans in their marketplace, and I think that's been the case. [LB713]

SENATOR NORDQUIST: Any other follow-up? Just, sorry, Bob,... [LB713]

ROBERT HALLSTROM: Yep. [LB713]

SENATOR NORDQUIST: ...one more quick question. Just historically over the past five years, do you have any sense of how this responded? I know obviously the lending probably was down but was there a need for liquidity? Did banks...I mean did banks early on... [LB713]

ROBERT HALLSTROM: Oh, I think...I think with... [LB713]

SENATOR NORDQUIST: ...take on more? [LB713]

ROBERT HALLSTROM: Yeah, I think with the recession that we've probably seen a dip. The last figures that I got were...was either in late '90s or the early 2000s there was about $70 million... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

ROBERT HALLSTROM: ...that was being accessed by banks from figures that I had in my old files... [LB713]

SENATOR NORDQUIST: Okay. [LB713]

ROBERT HALLSTROM: ...from about the time that we last changed the law. [LB713]

SENATOR NORDQUIST: Okay. [LB713]

ROBERT HALLSTROM: So it dipped and I would imagine, in large part, with loan demand going down... [LB713]

SENATOR NORDQUIST: Uh-huh. [LB713]

ROBERT HALLSTROM: ...from the dip in the economy and so forth. [LB713]

SENATOR NORDQUIST: Okay. Great. Any final questions? Thank you. [LB713]

ROBERT HALLSTROM: Thank you. [LB713]

SENATOR NORDQUIST: Next proponent testifier. Like to say Senator Mello has joined us. Welcome. [LB713]

KIM SCHROLL: (Exhibit 2) Thank you. Good afternoon, Chairman Nordquist and fellow committee members. My name is Kim Schroll. I work for NebraskaLand National Bank in North Platte and I'm also a board member of the Nebraska Bankers Association. I present my testimony today as a proponent of LB713, and I thank you for this opportunity. NebraskaLand National Bank was chartered in 1998. We're headquartered in North Platte, and we have offices in Kearney, Mullen, as well as Rock Springs, Wyoming. Since our inception we have accessed funds through the Nebraska Capital Expansion Act through the time deposit open accounts, and the funds have allowed our bank to make loans in the communities that we serve, including agricultural loans, home loans, small business loans, and consumer loans. Our branch in Rock Springs, Wyoming, has been provided the opportunity to access funds through a similar program in the state of Wyoming. And the Wyoming program allows banks to access an initial amount of funds, and then banks with the loan demand and in need of additional funding have the opportunity to request additional funds. My bank and the Nebraska Bankers Association supports increasing the access of these funds to allow banks with loan demand to be able to continue to positively impact the economic conditions of the state. Expanding the funds helps the Nebraska banks with the ability to fund loans during time of expansion. Your support of increasing the maximum amount of the time deposit open accounts made available to the banks provides us with a liquidity tool and the readiness to capitalize on the opportunities to lend and further improve the economy in Nebraska. [LB713]

SENATOR NORDQUIST: All right. Thank you. Just for the record for the transcript, can you spell your name just so they have it? [LB713]

KIM SCHROLL: Certainly. Schroll, S-c-h-r-o-l-l. [LB713]

SENATOR NORDQUIST: Great. Does the Wyoming program have a cap or do you know what that cap is? [LB713]

KIM SCHROLL: They currently have an initial offering and it's based upon the banks that are willing to participate. [LB713]

SENATOR NORDQUIST: Okay. [LB713]

KIM SCHROLL: And so then you receive your pro rata share. [LB713]

SENATOR NORDQUIST: Okay. [LB713]

KIM SCHROLL: The second offering is if you want...would like additional funds. [LB713]

SENATOR NORDQUIST: Great. Thank you. Any questions from the committee? Senator Davis. [LB713]

SENATOR DAVIS: So since you're able to essentially borrow at a little bit of a discount from the state or use the funds from the state at a discount, does that result in lower interest rates at all in your community? [LB713]

KIM SCHROLL: Well, the formula is determined by the Nebraska Investment Council for the rate that we pay on the deposit. [LB713]

SENATOR DAVIS: Uh-huh. [LB713]

KIM SCHROLL: And so that may or may not be less than alternative funding sources. But the opportunity for liquidity is what is most important here so that we can continue to lend in the communities that we serve. And so, you know, we look at a multiple of sources when we fund our banks. Of course, local deposits are our preferred method. Even if we may have to pay up for those local deposits, that would be our preferred method to fund our banks and our loans. [LB713]

SENATOR DAVIS: Thank you. [LB713]

SENATOR NORDQUIST: Any other questions? Seeing none, thank you. [LB713]

KIM SCHROLL: Thank you. [LB713]

SENATOR NORDQUIST: Yes. Any additional proponent testifiers? Seeing none, any opponent testimony? Seeing none, neutral testimony? Jeff, I know you may answer questions... [LB713]

JEFF STATES: Sure. Yeah. [LB713]

SENATOR NORDQUIST: And I, I think...just, yeah. Thank you. [LB713]

JEFF STATES: Mr. Chairman, members of the committee, my name is Jeff States, J-e-f-f, and it's S-t-a-t-e-s, and I'm the Nebraska State Investment Officer so I'm the person that's charged with investing the time deposit open accounts. Don't disagree with any of the testimony that's been presented and I really am here only to provide, you know, provide technical information if it's requested, I think. [LB713]

SENATOR NORDQUIST: Yeah. Can you just kind of walk through the...just explain the fiscal note a little bit more just so the committee has a good understanding as we deliberate on this? [LB713]

JEFF STATES: Yes. I would start by telling you that, of course, the funds that are available for investment generally to the State Investment Officer, because they're not colored by belonging specifically to some other entity, are the monies that are in the operating investment pool. So primarily it's cash fund balances. So the fiscal note uses as a benchmark for comparison as to the income that's currently being earned for the alternative as the earnings that are currently earned off the OIP, which is about 1.9 percent currently. That's a combination blended rate for a variety of investments. The rest of the fiscal note I would say, you know, is the difference that is the current rate of 1.9 and the fact that the rule that's in place sets the rates that are paid by the banks on the TDOA monies today at about 33 basis points. It is a rate that by rule is established by looking at one-year yields off of Treasury securities, governments and agencies, and it's one-third Treasuries, one-third agency yields, which are primarily Ginnies and Fannies, and then one-third based off of a bank deposit yield, which we obtain off of Bloomberg, so it's a national rate, not a Nebraska rate. And today that is equally weighted and it's about 33 basis points. I would not disagree it's difficult to know what the maximum impact of this would be. There's 65 institutions, I think is accurate; was reported about a third of those, somewhere around 20, today take the maximum $1 million. I use, fairly simplistically, a 20 percent kind of rule in just kind of looking at, but basically determined that roughly about $15,000 per $1 million that would be added to the account is what, from just an earnings standpoint, would be earnings not being received today, though obviously that spread changes. Right now front-term rates are very low. And so the fact that we can invest the OIP at a longer duration means that we do have some mismatch in maturity. But for the liquid portion of the pool, the 33 basis points we feel kind of tracks fairly well with what our alternative investments are if we were investing for a year out, because we'd buy the Treasuries and the agencies. And so the $1 million or less number is just predicated on somewhere around 20 percent of the existing 65 institutions probably participating. And if it's the full 20, it would be a little bit larger; if it's less...and we really just don't know. I think as already reported, you know, the current lending environment has meant we haven't had strong demand for additional funding but there have been times in the past when, my staff tells me, back in the early 2000s, at the peak of the program, we maybe had as many as 140 banks that participated. And that number has fallen off significantly over the last period as well as the maximum amount that folks are taking. [LB713]

SENATOR NORDQUIST: Is that interest rate that the banks pay set on an annual basis? [LB713]

JEFF STATES: It's reset on a quarterly basis. [LB713]

SENATOR NORDQUIST: Quarterly. [LB713]

JEFF STATES: Yeah. [LB713]

SENATOR NORDQUIST: Would you be able to provide us a little history, how that has compared to the operating investment pool return over the past decade or so? Is that something that... [LB713]

JEFF STATES: You know, I don't have that information immediately with me. [LB713]

SENATOR NORDQUIST: No, no, not today, but... [LB713]

JEFF STATES: I could provide... [LB713]

SENATOR NORDQUIST: Yeah. [LB713]

JEFF STATES: I could provide it back to the committee, yes. I mean we... [LB713]

SENATOR NORDQUIST: Yeah, that would be great. [LB713]

JEFF STATES: I can show you every quarter what the rate is reset at... [LB713]

SENATOR NORDQUIST: Okay. Okay, that would very helpful. [LB713]

JEFF STATES: ...and we'd know what the OIP is earning. [LB713]

SENATOR NORDQUIST: All right. Senator Mello, did you have a question? [LB713]

JEFF STATES: But I'll do that. [LB713]

SENATOR MELLO: Thank you, Chairman Nordquist. And thank you, Jeff. I guess it's going to be more of just I was asking the legal counsel a little bit. State law now currently says that in theory we have $220 million reserved, $1 million for each bank under current state law. But the reality is not all banks take advantage up to that $1 million threshold. [LB713]

JEFF STATES: And I'm saying that's true and the ceiling is set because 220 is the number of banks... [LB713]

SENATOR MELLO: Of banks. [LB713]

JEFF STATES: ...or financial institutions in this state based on the bank division's director's information. Roughly, that is the total number of institutions. It says the money has to be available, so that's kind of the cap, the 220. [LB713]

SENATOR MELLO: Okay. [LB713]

JEFF STATES: We don't have a concern at this point on that restricting the total funds because the OIP is somewhere around $3.7 million, $3.8 million today. In practice, I guess if we were ever limited because of the demand by agencies and the Legislature to draw down those cash balances, we might reach a point where we wouldn't have the full $220 million, but today, yeah, those funds are available to offer. But basically, we're just honoring applications as they come in, when they do. [LB713]

SENATOR MELLO: And I'll be very careful here, in part because I'm not...by no means am I trying to attack the fiscal note from you and/or the Legislative Fiscal Office. But if state law says now that we have to have up to $1 million for every financial institution, which there's 220, I guess I'm wrestling with why we would have any...the loss that's projected in the fiscal note is based on people not utilizing state law, I guess would be the catch. Because state law says, in theory, this $220 million should be available for all the banks, the financial institutions and banks in the state right now. So in theory, if all those banks utilize it, we wouldn't have a loss, so to speak, in regards to our investment return because that would already have been spent. And if we try to do this, we'd have to make other changes in the law outside of the $220 million threshold. Am I kind of...? [LB713]

JEFF STATES: No, Senator, I do understand your comment, and that's why the purpose of the fiscal note is kind of only to indicate that, given that the funds aren't being taken,... [LB713]

SENATOR MELLO: Okay. [LB713]

JEFF STATES: ...we're investing them along with the OIP, because we have enough liquidity that we invest them for a longer duration. [LB713]

SENATOR MELLO: Perfect. Understand. Thanks, Jeff. [LB713]

SENATOR NORDQUIST: Any other questions? [LB713]

SENATOR DAVIS: How long are the terms? [LB713]

JEFF STATES: You know, I'm told by my staff that although we base it as a year, the deposit, when it's received, is basically open for...with no stated maturity in the contract today. So the agreement is redone at any time when the terms would change, I mean when the size of the deposit being taken. But as long as the institution provides the collateral that's required in addition to the FDIC Insurance, the deposit remains there on a continuing basis. [LB713]

SENATOR NORDQUIST: Any other questions? Seeing none, thank you. [LB713]

JEFF STATES: Uh-huh. [LB713]

SENATOR NORDQUIST: Any other neutral testimony? Seeing none, Senator Gloor, would you like to close? Senator Gloor waives closing. That will conclude the hearing on LB713. And Senator Mello will open on LB759. [LB713]

SENATOR MELLO: Good afternoon, Chairman Nordquist, members of the Nebraska Retirement Systems Committee. My name is Heath Mello, H-e-a-t-h M-e-l-l-o, and I represent the 5th Legislative District in south Omaha. Currently, current statutory requirements for various political subdivisions require that if those subdivisions have a defined benefit retirement plan, they must file a quadrennial actuarial report with the Public Employees Retirement Board and the State Auditor. While these current reporting requirements provide a minimal level of state oversight for local pension plans, LB759 would provide additional state oversight that is specifically targeted towards those local pension plans that are facing funding shortfalls. Just this month State Budget Crisis Task Force, a national task force chaired by former Federal Reserve Chairman Paul Volcker, recommended strengthened state oversight of local finances, specifically citing underfunded pension plans as an area of state concern. Under LB759, any political subdivision which offers a defined benefit retirement plan would be required to file an additional report each year with the Nebraska Retirement Systems Committee if one of two conditions are met: contributions to the plan do not equal the actuarial requirement for funding; or the funding ratio for the plan is less than 80 percent. In the report to the committee, the political subdivision must provide an analysis of the conditions of the plan, as well as recommendations for future benefit changes, contribution changes, or other corrective action that would improve conditions of the plan. The bill also allows the committee to require that the political subdivision present its report to the committee at a public hearing. While the bill amends a variety of existing statutes dealing with the pension plans of specific political subdivisions, the new requirements apply to every political subdivision which has a defined benefit plan. Unfortunately, while the committee's 2011 joint interim study on local pension plans identified a number of known defined benefit plans, there is no requirement that political subdivisions notify the state that they have a defined benefit plan and, thus, should be meeting the reporting requirements. Additionally, there are no consequences for a political subdivision that fails to meet the new reporting requirements in LB759 or even the existing reporting requirements in state statute. The committee should have received a copy of AM1654, a white copy amendment which adds two additional provisions to the bill. First, the amendment would require that on or before November 1, 2014, each political subdivision that offers a defined benefit plan notify the committee that they offer such a plan. Second, the amendment adds a provision that authorizes the State Auditor to audit or cause to be audited at the political subdivision's own expense any entity that fails to comply with reporting requirements in the legislation. One additional issue that was brought to my attention recently is a concern relating to defined benefit plans for firefighters in first-class cities who were hired prior to 1984. Because these plans are closed and only have a small handful of participants, it is somewhat impractical to require annual actuarial reports for the small plans. And my office will be working with the committee's legal counsel and the League of Municipalities to draft additional language that would address this issue. At the end of the day, LB759 is really aimed at encouraging local governments to adopt best practices in the management of local pension...public pension systems. While most local pension plans are likely already conducting annual actuarial reports as opposed to quadrennial reports that are currently required in statute, moving to an annual actuarial report and providing additional legislative oversight are common-sense changes that should improve the long-term health of local pension plans, creating a positive effect on local budgets. Thank you for your time and I'd be happy to answer any questions you may have. [LB759]

SENATOR NORDQUIST: Thank you, Senator Mello. And I'd just concur that, you know, we've seen nationally what happens when there isn't sufficient oversight, and I think it would be an appropriate role for this committee and appreciate the legislation. Any questions from the committee? Seeing none,... [LB759]

SENATOR DAVIS: Just one question,... [LB759]

SENATOR NORDQUIST: Oh, Senator Davis, please. [LB759]

SENATOR DAVIS: ...Senator. Do you see the state assuming more of a role then, Senator Mello, in managing or trying to stem off problems in these particular subdivisions? [LB759]

SENATOR MELLO: I think, Senator Davis, I think the purpose of LB759 is to start that process for the Legislature and the state in the sense of if an entity is not...a local political subdivision is not meeting their actuarially required contributions and their pension plan is starting to become in serious danger of being at a point of being bankrupt. That puts the, I would say, the onus on the political subdivision, by bringing them in front of this committee and ultimately possibly the Auditor with the adoption of the white copy amendment, of changing the plans, similar to what this committee and the Legislature has done with the pension plans under our purview. So it really is an issue that we've come to identify nationally that's occurring more and more, is that while the state doesn't assume the liability, the state does actually have, I would say, the fiscal oversight responsibility to make sure local entities, if they're not meeting their obligations, to explain why they're not meeting their obligations. And if they need substantial policy changes to be made to meet those obligations, that they should be bringing those proposals forward and/or advocating and working with the Legislature to make sure their plans become solvent or remain solvent to the future. [LB759]

SENATOR DAVIS: And then that leads me into my next question, which you've kind of hit on here. But by doing so, will the state be assuming some liability for mistakes that are made? [LB759]

SENATOR MELLO: I would say the state is not assuming any liability under LB759. It's simply, I think, exercising our fiscal oversight role as legislators and as the legislative branch of government, particularly this committee, in understanding what the fiscal nature and the fiscal condition of defined benefit plans are around the state on a regular basis. I think utilizing the example of what this committee went through last year in respects to reforming the school employee defined benefit plan, there's obviously a lot of information, a lot of detail, and a lot of interaction with overall fiscal policy that pension plans are integrated with. And so having, I think, this committee and arguably, as Chair of the Appropriations Committee, I'm fortunate enough to be put on this committee due to that Chairmanship, it provides a good, I think, overall understanding of what's happening fiscally as well in regards to local governments across the state as they deal with their local pension systems. [LB759]

SENATOR DAVIS: Thank you. [LB759]

SENATOR NORDQUIST: Any other questions? Seeing none, thank you. [LB759]

SENATOR MELLO: Thank you. [LB759]

SENATOR NORDQUIST: Any proponent testifiers? Thank you. Welcome. [LB759]

DICK CLARK: (Exhibit 3) Good afternoon, Mr. Chairman, members of the Nebraska Retirement Systems Committee. My name is Dick Clark, D-i-c-k C-l-a-r-k, and I'm director of research for the Platte Institute. Thank you for this opportunity to speak today in support of this important bill. I've not had an opportunity to review Senator Mello's amendment, so my remarks are addressed solely to the green copy of the bill today. Senator Mello's LB759, as you've already heard, would require annual reports be filed each November with this committee by public entities managing certain defined benefit retirement plans in the state. The reports would be triggered if plan contributions do not equal the actuarial requirements for funding or if the funded ratio was less than 80 percent. These reports would provide important information on the fiscal footing of these retirement plans, as well as options for corrective action that might be taken to head off shortfalls in the future. This added transparency is crucial for enabling you and your colleagues to protect taxpayers from significant financial liabilities that may result from the continuation of unsound public retirement plans. Responsibly managing pension obligations is crucial to Nebraska's financial well-being and the economic growth of the state. States, counties, and municipalities across the nation are acting to address their own pension shortfalls. In at least 33 instances around the country since 2010, local political subdivisions have been so financially overwhelmed that they've sought protection from creditors by filing for bankruptcy. In most of these crises, unfunded pension obligations played a major role in the financial troubles that developed. This bill is an important first step for achieving full transparency of these retirement plans and enabling you and your colleagues to act proactively to head off a possible pension crisis in Nebraska. Thank you again for the opportunity to testify in support of this proposed legislation. [LB759]

SENATOR NORDQUIST: Thank you, Mr. Clark. Any questions from the committee? Seeing none, thank you. Any additional proponent testifiers? Seeing none, any opponent testifiers? Seeing none, any neutral testifiers? Welcome. [LB759]

GARY KRUMLAND: Senator Nordquist, members of the committee, my name is Gary Krumland, it's K-r-u-m-l-a-n-d. I'm here on behalf of the League of Nebraska Municipalities and I just want to address one issue, and Senator Mello brought that up in his testimony about cities of the first class police and fire pensions. Cities of the first class are cities with a population between 5,000 and 100,000, and their pension systems for their police officers and their full-time firefighters are in the statutes. In 1984, the system was changed from a defined benefit system to a defined contribution system and officers and firefighters who were hired before 1984 now have a choice when they retire of choosing to look at benefits under a defined benefit or defined contribution and make that choice. So there are...there still is a defined benefit system for these groups, however, it only applies to those who have been on the job for at least 30 years, and some of them more. And so they are very small systems and they're diminishing and getting smaller. We did a brief survey and talked to like eight or ten. There's a couple cities that just have one eligible employee, and even the large ones are talking about six, seven, or eight, you know. So it's a very small number, it's diminishing. And the question is, does an annual actuary analysis benefit them or does that just add extra cost? So we appreciate looking at this and possibly doing an exception. [LB759]

SENATOR NORDQUIST: Thank you, Gary. Any questions from the committee? [LB759]

SENATOR DAVIS: Gary, do you know how many people are affected? [LB759]

GARY KRUMLAND: No. That's what we've...we got responses from eight cities. Two of them don't have any, two of them just have one. The others range from four to eight. So if... [LB759]

SENATOR DAVIS: And these are people still working. [LB759]

GARY KRUMLAND: Yeah, these are still people working. [LB759]

SENATOR DAVIS: But you would still have people that are retired. [LB759]

GARY KRUMLAND: Yeah, and they've been working on the job for at least 30 years. Police officers can take full retirement at age 60, I think firefighters at age 55. So even if they were just hired in 1983, they're getting really close to retirement anyway. So they won't be on the job very much longer. Or I should say it won't be very long before they're eligible for full retirement, put it that way. [LB759]

SENATOR NORDQUIST: Uh-huh. Great. Any other questions? Seeing none, thank you, Gary. [LB759]

GARY KRUMLAND: Okay. [LB759]

SENATOR NORDQUIST: Any additional neutral testimony? Seeing none, Senator Mello. [LB759]

SENATOR MELLO: Briefly. Chairman Nordquist, members of the committee, I think I appreciate Mr. Krumland from the League coming up and explaining the issue, the sense of those are closed pension systems right now so no new members can go into those programs. And discussing this issue with the League, as well as it's also discussed a little bit in the committee memo, bill summary, that that's an issue that obviously we want to address. There's no need, I would say, to require an actuarial report for a pension plan with one member or even those members right now with some plans that don't have any members but still exist. So that's an issue that we will, I think, deal with in regards to the committee legal counsel and the League moving forward. There are also a couple other additional changes that we'll likely have to make in regards to specifically defining a political subdivision to make sure that the bill does not incorporate any of the state defined pension...defined benefit plans as well as clarify some the funding status components that's been brought forward by the committee legal counsel in the committee memo. So with that, I appreciate it and look forward to working with the committee on this legislation. Thank you. [LB759]

SENATOR NORDQUIST: Thank you. That will conclude our hearings today. Thank you, everyone. [LB759]