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Legislature's Planning Committee
October 21, 2016

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The Legislature's Planning Committee met at 9:00 a.m. on Friday, October 21, 2016, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing. Senators present: Tanya Cook, Chairperson; Paul Schumacher, Vice Chairperson; Mike Gloor; Galen Hadley; and Merv Riepe. Senators absent: Kathy Campbell; Bob Krist; Heath Mello; and Ken Schilz.

SENATOR COOK: Good morning. We have a couple of senators that are...won't be able to join us this morning, so, acknowledging Senators Brasch and Johnson in the audience, I would invite you to sit in their spots. And then if they show up, you can arm wrestle and whoever wins gets their spot.

SENATOR HADLEY: They can have my spot.

SENATOR COOK: So, Senator Brasch, Senator Campbell is not coming. And who else said they weren't coming?

CHRISTINA MAYER: Senator Krist.

SENATOR COOK: Senator Krist is not coming if you...no pressure, but come on up (laughter). And you're on closed-circuit television. You both look wonderful this morning, very professional.

SENATOR JOHNSON: Thank you.

SENATOR COOK: So I want to remind everyone that they are all on closed-circuit television and welcome you this morning to the Legislature's long-term Planning Committee. My name is Tanya Cook. I'm the state senator representing Legislative District 13. And I want to call the meeting to order and ask the committee members to review the minutes from last month's meeting and at which point I would entertain a motion to approve those minutes.

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SENATOR GLOOR: So moved.

SENATOR COOK: Senator Gloor makes the motion.

SENATOR SCHUMACHER: Second.

SENATOR COOK: Senator Schumacher seconds. All committee members please say aye. Opposed same sign. Thank you. And with that, we will segue into a presentation this morning. Apparently, as you know, agriculture is a big part of our economy. It is our economic driver here in the state of Nebraska. I've been honored to learn so much about it as a city girl in my service in the Legislature. And this morning we will have a presentation on agriculture and valuation methods from Mr. Jerry Deichert from the University of Nebraska-Omaha.

JERRY DEICHERT: Good morning. Do you want me to...my name and spell it or...

SENATOR COOK: Please. That's always helpful for the transcriptionist.

JERRY DEICHERT: (Exhibit 1) Okay. Jerry, J-e-r-r-y, Deichert, D-e-i-c-h-e-r-t. And as Senator Cook said, I'll be presenting this. But this material was prepared by Dr. Craig Maher who some engagement came up that he could not get out of. And so he apologizes and said that he would be available for discussion in more detail during the November meeting if that's desired.

SENATOR COOK: Yes.

JERRY DEICHERT: You should have the copies in front of you. The first chart just looks at what's happened to property taxes as a share of local revenues and looking at the Great Plains states plus Minnesota and some others. And as you can see that, the first half of the chart is every five years and then the last half starts annually. But the main point is that since the '70s, property taxes have become less of a share as states have adopted some kinds of local option taxes. But you can see that Nebraska is the thick red line and that is since 2002. The share of local taxes that come from property taxes, or local revenues, I should say, has been increasing slightly. And you can see that the "odd lier" in there is Minnesota which has really stayed relatively high

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compared to the rest of the states. And the other odd state is Missouri that has, right now, about 60 percent of its local revenues come from property taxes. This just looks at some of the current or more...doesn't have...it goes up to 2013 but it shows that beginning in about 2007, that as a share of property...of real property value by...for the state, agricultural land has increased its share from about 25 percent to 37 percent or so. And that difference was primarily in residential. So residential decreased its share and ag land increased its share. Now what happened during that time period that might be of interest is this looks at cash receipts from crops. And you can see that in 2005 about \$4 billion in cash receipts. Three years later, it was \$8 billion. Three more years later, it was \$12 billion. So you can see there was a threefold increase in cash receipts from crop marketings over that time period. Those sales aren't necessarily from production during that current...those current years. They could be sold off of inventory too. So it's just total sales. So you can see there's a big...there's a lot of income coming in. And what typically happens when farm income increases is pressure to...you know, on purchasing land. So that's crop side. But if you look at the livestock side, there's a little bit different picture. So there might be differences in the state depending upon what their primary source of farm income is--if it's ranching or if it's farming--and you can see that on the livestock and livestock product side. From 2003 to 2010, there was a little bit of "wiffle-waffling" but for the most part marketings were fairly stable. Then in 2010 they began to increase. If we go back to the other side you'll notice that obviously, in 2012, the marketings peaked and they've been dropping since then. Some of this information is based on preliminary data. Those numbers will change, but it's a good indication that...why there's increasing pressure now because the sales or the marketings are down considerably from what they were at their peak. That 25, 30 percent or 35 percent or whatever the percentage happens to be for ag land as a percent of assessed valuation, as we've seen before on this committee, the state average doesn't really reflect anything because urban areas are much different than rural areas. And so this chart looks at counties grouped by what percentage of agricultural land or what percentage of total property value is agricultural land. And you can see that the biggest is 32 counties, 60 to 70 percent of the valuation is agricultural land. And then it's 17 counties at 70, 79 percent, and then six counties it's 80 percent. So if you look at those top three numbers, that's 55 counties, out of 93, where 60 percent or more of the valuation or the property valuation is in agricultural land. On the flip side, if you look at residential, that there is 56 counties that less than 20 percent of their value comes from residential property. So that percentage of valuation, statewide percentage, really doesn't reflect some of the issues in a lot of

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the counties. And you can see if you go back to that first slide, 55 counties, over 60 percent of their valuations depended on ag land. And we know that the valuation of residential property in most of those counties isn't going to vary much from year to year. Okay, so kind of to summarize, what's been going on...summarize what's been going on is that in general property taxes have been growing share of local tax revenues since that 2002 number, if you remember that slide; and agricultural land is growing at a faster rate than other property classes so that ag landowners are carrying a larger portion of the levies. And obviously that's recalled in the call for policy changes. So what are the two primary ways that states in the region have looked at agricultural assessment? Well, one is the increased pressure on agricultural-related property tax bills; but another way in which some of the states have looked at agricultural assessment, land assessment, is preservation of farmland due to taxing pressure because of that urban fringe and what's happened in those areas, so those two primary principles that the states have looked at as far as how to value agriculture land or assess agricultural land. And the guiding principle in all of these as...and this is not my research, obviously. This is Professor Maher's research. But what he came through and said: The guiding principle has always been uniformity. And that's interpreted to read that property taxation be based on a fair and equitable estimate of the market value. And determining this value is truly the craft of the assessor. I might add parenthetically: may be more like the art of the assessor that, given some of the events and the way in which it's done in Nebraska with such land not changing hands very often and things like that, it's much more difficult. So the three basic valuation methodologies that have been used are the sales comparison approach which is based on arm's-length sales of comparable properties in the area. If comparable properties don't exist, there is the cost approach, and this is the assessor estimates the cost of constructing the same building minus depreciation or some other similar method. And then there is an income approach where the value of property is based on its rental income potential, that is, its future ability to produce income for the owner. This approach is primarily used to assess commercial and manufacturing and agriculture. It's always good. Professor Maher always likes to go back to see what the constitution says and he looked at the various constitutions in the other states and said that in Nebraska taxes should "be levied by valuation uniformly and proportionately upon all real property and franchises as defined by the Legislature except as otherwise provided (in) or permitted by this Constitution," and then later on adds, "the Legislature may provide that agricultural land and horticultural land, as defined by the Legislature, shall constitute a...distinct class of property for purposes of taxation and may

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provide for a different method" of taxation. So what's the issue or what's going in Nebraska now? And as he says, there's tax limits, rate limits on mill levy limits on local governments. Agriculture is assessed at best use. Land has been assessed at 75 percent of valuation and agricultural values have been growing. So that's kind of the context. So what's happened in other states? I mean you look at some other states. He said, "Often in heavy agricultural states, some form of break for farmland--today, every state offers some form of tax relief for agricultural land owners. Use-value assessment is a common option." In Nebraska it's still assessed at market value; unlike other property classes, farmland assessment is based on 75 percent of market value. So one of the implications of most...a lot of the exemptions in some of the other states, especially the use value, is there is a shift of...in burden away from agricultural landowners, and that works primarily in urban fringes and he'll explain that a little bit later. And in theory, that's for the preservation of farmland; that's in particular that use-value method of valuation. So the Council of State Governments looks at how ag land has been assessed and they're looking at the upper Midwest, I think that region is called. And so focusing on that region, you can see that there are there are three primary ways. And Nebraska is unique in this region in that it's what they call classified use. It's assessed at market value but at a lower rate which is 75 percent of value. You can see many of the surrounding states use value which is based on land and the amount of income the owner can expect to earn. And a couple of states are at market value, but there are other programs within those states to reduce the tax burden. So Minnesota in particular, their method is called Green Acres program and it says agricultural landowners must apply to the program. It was a reaction to growing land values at rates greater than other property classes on urban fringes and was trying to protect from that development. And ag land is assessed at best use, then compared to values in heavily ag counties, and the ag landowner gets the lower of the two valuations. And in 2012, 62 out of 87 counties enrolled, which was about, he said, 13 percent of...or almost 14 percent of productive agriculture, and an audit said--this goes back to 2008--said that that saved about \$35 million. Michigan has a similar program where they're looking at that use assessment and they enable landlords to enter into a development rights agreement with the state. And the landowner is entitled to income tax benefits and land is not subject to special assessments for various types of projects that are kind of urban-related projects--sanitary, sewer, lights, and nonfarm drain projects. The credits depend on the tax assessed against the property and on the landowner's income. And it said the landowner is entitled to claim a Michigan tax credit equal to property taxes minus 3.5 percent of the owner's

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household income. And these requirements include both the size and the use of the land and agreements can last anywhere from 10 to 90 years. The owner can sell and transfer land without penalty. And increases in taxable land is held to the lower of two rates: either 5 percent or the rate of inflation. The Wisconsin use-value assessment is specific only to land in agricultural use. Its aim was to reduce sprawl and provide tax relief to farmers and it's overseen by their Farmland Advisory Board (sic--Council) and which is involved in the program's management and they use the federal land bank's five-year capitalization rate and they also have a program for annual reporting of the program effectiveness. Kansas is the most similar to Nebraska. Currently agriculture and horticultural land is assessed at 75 percent of actual value which is down from 80 percent in 1992. The qualifications: that it has to be outside the boundaries of a sanitary improvement district, a city, or a village, and they need to complete an application to qualify. Iowa uses a use-value assessment and it's based on productivity formula rather than market value. And the net earning capacity is based on a five-year rolling average of crop prices multiplied by their yield minus expenses. So there's a formula to determine what the market or the assessed use value is. And Iowa uses a 7 percent capitalization rate with a 4 percent cap on annual change in property assessed valuation. In 2013, productivity value was 24.7 percent of market value. South Dakota also has a use-value method of assessment and began that in 2010 and based off productivity value, a 15, 20, or 25 percent cap. I'm not sure how Professor Maher would be able to explain that. I don't know how that cap was used to control the year-to-year change, but there was some cap to make sure the change was...assessed valuation was capped. And the cap exacerbates disparities between taxable and actual value. Ag land is only taxed at 85 percent of final use-value assessment. So states use different things and use-value is used in many other states. But what research says, and if you think about this, at the edge of the city, the difference between the market value and the use value can be substantial. But the difference declines smoothly with increased distance from the periphery of the city. So when you get far enough away from the city, the use value and the market value are going to be pretty comparable. So I guess that's what he says, meaning that use value assessment is effective in shifting the property tax burden away from agriculture toward residential, commercial, industrial, only in areas where agricultural land values are being affected by development pressures. So in most of Nebraska, his point is that use value and market value will be pretty comparable. It'll be...the biggest difference will be around Lincoln, Omaha, Grand Island, and areas where you've got growth on the periphery and land values are increasing because of that. Then for those states

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with use-value assessment of agricultural land, stiff penalties are needed to prevent playing the system and then converting to other uses. And eligibility requirements need to be clearly stated; for example, how are forest and wetland treated? In Nebraska, probably, how are our cropland and pasture land treated? Are they treated differently? So to summarize, his point is that what's the policy objective of the valuation of farmland or the...the changing? Is it to prevent the conversion of agricultural land, going to the use value, looking particularly around urban areas? Or is it to provide tax relief specific to land classifications? And those are the objectives that should drive the policy is, is it use value or is it to provide tax relief? And luckily he will be here to answer more questions and then bring in some more policy discussion next month.

SENATOR COOK: Yes.

JERRY DEICHERT: But I think he wanted to be able to get this...get you to thinking about how different states treat use value versus market value and also present some of why some of the pressures occurred when they occurred because, if you can see how crop marketing has increased so rapidly in just an eight-year time period, and then how did that income get capitalized. And I'll entertain any questions then.

SENATOR COOK: Thank you, Mr. Deichert. And we will remind the committee that Mr. Deichert is presenting on behalf of the scholar Dr. Maher who does the research in this area. And we will have an opportunity to question him directly or send questions to his attention via e-mail.

JERRY DEICHERT: And I have the...I have his e-mail.

SENATOR COOK: Yes. And we can provide that to senators. There's also a piece of paper on your chair, for those of you who are with us in the audience. If you want a copy of the materials, the slides, for your own reference, we can take your information and e-mail those from this presentation or from the next presentation. So with that, questions from the committee? Senator Riepe.

SENATOR RIEPE: Senator Cook, thank you. Are you telling us that we have to be nice to Jerry?
Is that...

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SENATOR COOK: You exercise your best judgment on closed-circuit television.

SENATOR RIEPE: Oh, okay. Well, I'll...my question gets to be is I know when we address these things that, you know, we...it's so you take this away, trying to look at then what's the replacement source or is there some significant reduction in expenses, if you will, or something like that. I assume that that is, as many papers are, it says this is something to follow up in further research?

JERRY DEICHERT: I think that is his...that's what he was intending to show. But if you look at that original chart, it's about 80 percent of the local government revenues are from property taxes. And in some counties that's 60, 70 percent are from land, agricultural land. So any change is going to have...could have a significant impact on local revenues, again, unless there's something to replace it.

SENATOR RIEPE: Yeah.

SENATOR COOK: Senator Hadley.

SENATOR HADLEY: I guess it's more of a statement than a question. When we had the Tax Modernization Committee, we certainly heard about property taxes across the state. But we also had some experts come in and give us presentations. If I remember, one of the experts came in and talked about it being a cash flow problem for the ag people that when you have commodity prices at \$8 for corn and such as that, the cash is there to do it; or on the other hand, eventually property will change hands and there can be a realization of that incremental change in valuation. So his idea was to set up a type of bank system, loan system that would help farmers during the cash flow problems to be able to pay their property taxes with the idea this would be recouped then when either commodity prices came back or when the land transferred ownership. I floated that idea a couple times and, boy, it was like floating communism here in this United States. It just didn't go very well. But I think when we talk about this, cash flow is one of the serious problems of our property tax system with ag because of the volatility of commodity prices and if there's some way to soften that; but on the other hand, the cash flow problem goes away when

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that land is transferred. Either through sale, inheritance, or however it's transferred, that value is technically realized by the person who owns the land. And that's just a statement.

SENATOR COOK: All right. Thank you. Senator Brasch.

SENATOR BRASCH: Thank you. And is it appropriate for a guest to speak at the table hearing?

SENATOR COOK: Absolutely.

SENATOR HADLEY: Is it appropriate for somebody who isn't going to be around for (inaudible) two more months?

SENATOR COOK: Everything is relative.

SENATOR BRASCH: I believe Speaker Hadley is making an excellent point and an argument and I just wanted to expound on that a little bit. Not only do tax collectors want tax dollars, but bankers also want payments. It's just not cash flow. And for...is it Professor Maher? Is that his...

JERRY DEICHERT: Um-hum.

SENATOR BRASCH: If he could also, you know, what he's charted, but look at the increase in costs on the input, the cost of seed, the cost of fertilizer, and the cost of equipment. They are not in line with the return on the grain prices, you know. They went up when the grain prices went up on these charts, but they have stayed up. There's no price rollback there.

JERRY DEICHERT: Those are, yeah, those are gross sales, those aren't net incomes, yeah.

SENATOR BRASCH: Yes. Okay. All right, so that...and then I'm also believing, and Mary Jane is in here, but Kansas does have a seven-year averaging, a five- or seven-year...they use an average. So if he would just double-check, I believe it's new to Kansas within the last couple of years on how they're...they were very similar to Nebraska but I think when prices took a jump and taxes took a jump, that they have implemented an averaging system to help ease off the high

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end and the low end is my understanding, speaking from a senator with...from Kansas that is a colleague on another group I belong to.

SENATOR COOK: Okay. So you're asking that that question get followed up on by Dr. Maher or by...this is...

SENATOR BRASCH: Yes. Yeah, Dr. Maher or someone, you know, because he said Kansas is similar to Nebraska. I believe that used to be the case.

SENATOR COOK: All right. You want to see if it's apples and apples and in the same time frame and all of that.

SENATOR BRASCH: I believe there's...they've made an adjustment.

SENATOR COOK: All right. Thank you.

SENATOR BRASCH: And the other is it's just not the cash flow problem.

SENATOR COOK: Right.

SENATOR BRASCH: It goes back to not just taxes but...

SENATOR COOK: Inputs.

SENATOR BRASCH: ...bankers are looking at with a very sharp pencil on will they be able to pay their note. Very few farmers, especially young, starting-out farmers or whatever age they're starting out, they rely very heavily on financial institutions to make it the end of the year. Renters are also...I've talked to a farmer who doesn't know how his renter is going to pay the rent. And farmers, some farmers depend on rent for retirement income. So if they can't rent the land, they have just lost their 401(k).

SENATOR COOK: Sure.

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SENATOR BRASCH: And so there's a lot of different situations that go along with the price fluctuation as a resource.

SENATOR COOK: We can follow up on those. Senator Schumacher.

SENATOR SCHUMACHER: Thank you, Senator Cook. One of the things where the land prices took off or...and reflecting the crop prices and doubled or tripled in that period, but just after 2008. I would be interested to know, if it can be ascertained, how much of that was in irrigated farmland as opposed to just pasture land and dryland. And while I think it's kind of, and, yes, an intellectual curiosity, is--speaking of communism, Senator Hadley--one of the things I've learned in the Legislature is that we have this rather communistic principle that the water in this state is owned by the people. And if that is true, then there should...all land is dryland, because you don't own the water. You buy an irrigated farm, you're buying dryland. And in effect, the increase in value we saw there, if it's due to it being or correlated with being irrigated land, is really a payment for the water which belongs to the state and it's not a property tax. And so to what extent is that statement true? Is this irrigated land that's driving this increase; and if so, is the increase in price not for the land but because the water is given away free?

JERRY DEICHERT: I do know that on the reports that are prepared by Department of Revenue that look at valuation by type of property, they list the amount of land by class. Now I don't know if there is someplace in there where they do have assessed valuation by class, but we could easily go in and classify a county if over half of it is agricultural...

SENATOR BRASCH: Irrigated land is...

JERRY DEICHERT: Irrigated agriculture...

SENATOR BRASCH: ...taxed different. You pay higher taxes on irrigated land versus dryland. And then the NRDs now are controlling water and controlling implementation of more irrigation. We have installed water controls now for agriculture so it's...

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SENATOR SCHUMACHER: But if the farmer who buys the land and pays a premium price for irrigated land is, in fact, not buying water, then he's buying dryland or she's buying dryland and what we are calling a property tax is, in fact, a water fee. I'm just exploring the theory.

SENATOR COOK: Yes. It's reminding me of my logic class at dear old Georgetown, right, Senator Schumacher? (Laugh) Senator Johnson.

SENATOR JOHNSON: First of all, thank you, Senator Cook, for the opportunity to sit up here and be part of this. As probably some of you know, I introduced a resolution during the session, LR600, to study the way Nebraska values ag property. And I started that study and I have not had the time to follow up because of campaigning. And I knew that when I went into it that I would not have something at the end of this year that was going to be a bill that was going to solve everything. But this summer then up in Milwaukee of the Council of State Governments Midwest meeting, ag committee, one of the agenda items was valuation of ag property. And people from the senators after the meeting were surprised that Nebraska basically is...how much we depend on the valuation being comparable sales. And so from that, continued to look at it. I have met with three county assessors in my district and we started a discussion and I'm sorry to say that's about as far as we've gotten so far. But it does look at what Iowa is doing and they've...with their classifications of what that ground can produce, the type of soil, the topography, availability of water. Of course, in Iowa we don't have the irrigation that we have here. But they kind of do, I'd almost call it, like a mass appraisal of the ground in a geographic area and come up with classifications and rate that. And that becomes a base price. And then other factors are added to that in order to come up with a valuation. And what my initial study or thought process was, and still follows that a little bit, goes back to what is this acre of ground able to produce, what type of crop, or is it grassland and it produces livestock, it produces protein, it produces cow/calf/meat. So what can that acre produce, and then look at it as what the value of that crop or that animal when it comes off, what's the value of that. What I would hope it would accomplish is that we go...as we go through the peaks and valleys of pricing, the way crops go up to \$8 and come back down to \$3, that we can make that cash flow a little bit closer. We'd have to use a five-, six-, seven-year average, I'm sure, of the value of that crop. And that's obtainable. There's records out there that will help show that. So that's kind of where I've been focusing on and I do think the use value is something that we need to look at a lot closer. Most of

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the other upper Midwest states are definitely looking at that type of valuation. So again, I appreciate the report, follows along pretty much with what I was working on and helps me out, I guess, doing this legwork if I'm able to continue my study as we move forward. And it's not a study that's going to have an answer on how it will affect TEEOSA or state aid for education. It's strictly what I think maybe is a fairer way just to help cash flow situation for ag property. So that's all I have at this point. Thank you.

SENATOR COOK: Thank you, Senator. Senator Gloor.

SENATOR GLOOR: Thank you, Senator Cook. This actually is probably a good opportunity to remind people of the importance of the Planning Committee. The reality is Senator Johnson isn't the only one that had an interest there, a study resolution, or questions or concerns about the whole issue of property tax and how we do it. And although we've leaned an awful lot on study resolutions, we forget that the Planning Committee was formed to try and prioritize things for the Legislature to help us in our decision making. And I think Senator Johnson is volunteering in many ways to put his name in to serve on the Planning Committee...

SENATOR COOK: Sounds that way.

SENATOR GLOOR: ...because we're going to have a lot of openings on this committee next year to keep the fires burning bright as relates to this issue of property tax and property tax relief being a priority. So, I mean, the Planning Committee has an important role in continuing to keep this issue in front of us. But the challenge for us is, no matter what value, valuation methodology we use, we go back to the graph of property taxes as a share of local revenues in the Great Plains states, what people want who own ag land is for that percentage to go from 80 percent downward. I mean, whatever methodology we use, somebody is still going to have to pay the bill. And how we spread those dollars around means you're going to have winners, you're going to have losers. But as long as it's equal percent of the total bill, we've got the same issue which is people want to pay less in property tax. Whatever that methodology is are going to, as I've said, make some happy, some won't be so happy. So it's a dollars issue ultimately. And you've got to pay the bills, especially for education. And so if you shift that to income, you shift that to sales, you shift it to fees, there's your challenge, ultimately there's your challenge.

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SENATOR COOK: Thank you, Senator Gloor. Senator Hadley then Senator Schumacher.

SENATOR HADLEY: Just a quick point. You have to do this very carefully because I use Iowa as an example. A kicker in the Iowa formula, you notice that they do the formula, they run it, but they limit increases to 4 percent no matter what they show. So Iowa right now is sitting on a real bomb--if land values go down in Iowa, taxes are going to go up. And that is hard to explain...

_____ : A lot.

SENATOR HADLEY: A lot...to explain to the taxpayer that the value of my land went down but the system we're using doesn't work real well when land values go down. And they're sitting on a lot of pent-up valuation that will continue to rise even though land values go down. So I'm just saying all of these methods have pluses and minuses and I think it behooves us to make sure we try to come up with the best method to collect the taxes. And lastly I think Senator Gloor is absolutely right--somebody has to pay the bills. And it's...first behind the tree, as Huey Long used to say, is going to pay the bill, so. And one last thing. We--Nebraska--prides itself on local control. And if you want the state to take over more of the burden of funding K-12 education, because that's really where the property taxes are, then I would expect the state to say, if we're going to give you the money we're going to spend, we're going to have more control on how it's...and that's just the Nebraska...and I see Larry Dix sitting in the counties. The counties are the ones that I really do feel sorry for, because they're sitting there with a constitutional limit and it's basically their only source of revenue is property taxes. So this is very difficult for the counties.

SENATOR COOK: Sure. Thank you. Senator Schumacher.

SENATOR SCHUMACHER: Thank you, Senator Cook. And what complicates it, as the two gentlemen know, is that whatever you giveth on one hand, you have to taketh away from somebody else on the other hand. And we're limited basically, until maybe we get gambling (laughter), but we're limited...

SENATOR HADLEY: I knew we could throw that in there. It's a little late.

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SENATOR GLOOR: Or increase tobacco taxes, there's your other option.

SENATOR SCHUMACHER: Right, and tobacco taxes and soda-pop taxes. But basically we're limited to the sales tax and an income tax and a property tax. And what...we have the property or the income tax folks saying, wait a minute, you know, you're on the high end of where we should be, so we need relief. And we have the sales tax folks who are the \$20,000 to \$120,000 a year people who pay the big chunk of the burden there saying, wait a minute, we can't take any more. And so no matter how we massage this, we're between three rocks and three hard places.

SENATOR COOK: Thank you. Okay.

SENATOR BRASCH: I do want to thank the Planning Committee, as well, for having us come to your table today and inviting us to the table because it is an important topic.

SENATOR GLOOR: You could volunteer to serve on the Planning Committee.

SENATOR COOK: Absolutely. There's still time.

SENATOR BRASCH: Well, there was a waiting line for me to get on, if you recall.

SENATOR GLOOR: Was there?

SENATOR COOK: All right.

SENATOR BRASCH: I could not get on the Planning Committee last time.

SENATOR COOK: Wow.

SENATOR BRASCH: But I'm certain that my...

SENATOR SCHUMACHER: Seniority has its benefits?

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SENATOR COOK: Well, we're out the door, so.

SENATOR BRASCH: Yes, so it was a matter of being courteous and kind and waiting for...

SENATOR GLOOR: Thank you for joining us.

SENATOR COOK: Oh, good.

SENATOR BRASCH: ...my turn to come to the table and it started today, so.

SENATOR COOK: How about that! "Courtesy," "kindness," great words to use in any policy discussion. I also like that it's a policy discussion. And with that, thank you, Mr. Deichert. Do you have anything else to add?

JERRY DEICHERT: Well, Senator Cook, since Senator Gloor raised the issue about the Planning Committee, I do have something to show what we've done with the Web site. I said that was one of our goals.

SENATOR COOK: Yes, please.

JERRY DEICHERT: If I could take five minutes just to show everybody?

SENATOR COOK: Oh, absolutely, show everybody.

JERRY DEICHERT: Right now we've put it up on our Web site but we'll work with...to get it...get things transferred over. I think some of the materials transferred over but as committee chairs have...you know, things have not been transferred all over. But we have all of the reports on our Web site and I will get that, the link, so we can get that, but so we have the reports from the various years. And so the 2015-16 reports you can see that all of them are listed down there in PDF form. But what we're working on now is making it more interactive. And so for example, if you remember our Quick Facts Profile that we had, so if we click on District 12...

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SENATOR RIEPE: That's a good choice.

SENATOR COOK: I was going to say 13 but that's okay.

JERRY DEICHERT: Oh. Oh! I was not...this is just purely coincidental (laughter). You can see that we have the quick facts up there. And so we could set it up so that each senator's home page could have that link on there so if somebody want to...from...their constituents could get to it. That's the next move. But we have it right now so anybody can get to it. The other thing we have on there where we're working on is we'll pick on, let's see, District 13, right next to it, and there are...the Census Bureau has some summary tables in addition to what we pulled in the quick facts. So our next way we're working on it right now, and this is the only district we have set up for an example, is you can go and get the quick facts that we had before, but you can also go in on some of these more very detailed tables that the Census Bureau put together. So let's look at the economic characteristics for District 13, for example. So it shows labor force status; it shows unemployment rate; it shows children under six where all parents are in the labor force; it shows how people get to work; it shows what kind of occupation and industry they have; it shows some income information; and then it shows if they have health insurance and it'll show poverty. So there will be tables like that for social characteristics, so it's education and...so the social characteristics would show us education, housing status, household status, and those things. Housing shows the type of housing unit, owner/renter, housing value, and those things. And then demographics shows age, race, gender, those things. And so I don't want to take your time and go through all of those, but if you're interested, you can see what...we'll have...we're working off-line to get everybody else set up there, but we have this as the demonstration. So if you wanted to look and see what's going on and what you might see later on is go to District 13 and you can see what...you know, we'll try to have that by the beginning of the session.

SENATOR COOK: Okay. Good.

JERRY DEICHERT: And but we right now do have, as I said, we do have that profile on there. The other thing is that in 2012 we started those...we started with the committee the policy briefs and we've set it up now that the policy briefs are categorized under the benchmarks that the committee decided. So if you wanted to look and see what has been done for health and human

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services, you can see that we have the specific papers and briefs that we have done on health and human services. Anyway, just a quick overview on...to show where we're going with that. And then now we need to get it set up so we can get kind of transferred over to the Legislature's Web site or however to get it so that it'll be more accessible. But right now we have it linked so you can get access to everything that we had. And I think, like I said, my next goal is to get those quick facts and the detail tables so that any senator on their home page can say, do you want to see the quick facts about the district or these details? And so that...what you saw for District 13 would pop up on everybody's home page.

SENATOR COOK: All right. Thank you very much. Senator Hadley.

SENATOR HADLEY: Yes. Mr. Deichert, I think there is going to be an important meeting a week from today. And since you were probably privy to exactly what the Economic Forecasting Board is going to do, so would you mind sharing with us exactly how much (laughter) you're going to decrease the revenue projections for the state?

JERRY DEICHERT: Somewhere between zero and \$4 billion.

SENATOR HADLEY: Oh, okay. Well, that...

SENATOR COOK: Narrows it.

SENATOR HADLEY: ...narrows it down to something workable at this time, so good. I'm glad we got an answer. Now we can get on with our planning.

SENATOR COOK: Good.

SENATOR SCHUMACHER: We should be able to cut taxes then.

SENATOR HADLEY: We should cut taxes.

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SENATOR COOK: Thank you. Okay. Any more questions? Welcome, Senator Kolterman. If you'd like to sit up here, Senator Schilz is double booked and, as I explained to Senators Johnson and Brasch, if he gets here, then you just work it out.

SENATOR BRASCH: Ten o'clock a.m. Transportation hearing...

SENATOR COOK: Oh, well, yes.

SENATOR BRASCH: ...that I'm Vice Chair on, so I'd better go.

SENATOR COOK: All right. Well, that's key. Enjoy. Come on down. Thank you, Senator. Welcome. And thank you again to Mr. Deichert. We will move on now to our next presentation featuring another very special guest. This presentation will be offered by Senator Greg Adams, our former Speaker, and we'd like to welcome here today, along with Dr. Hank Robinson, the director of UNO's Office of Institutional Effectiveness. Lindsey Bandow--I'm hoping that I'm pronouncing that well--has joined them. She will not be presenting today though. She's also with the UNO Office of Institutional Effectiveness. And the presentation today will be on the accelerate nebraska program which was borne out of some of the work that came out of the Planning Committee, as I recall. So with that, I will turn it over to the presenters. Please speak and say your name into the microphone, each of you, so that helps when it's time to transcribe. Are we there? Am I rushing it? All right.

GREG ADAMS: Maybe we can go ahead with introductions and...

SENATOR COOK: Yes, please do.

GREG ADAMS: Greg Adams, G-r-e-g A-d-a-m-s, executive director of accelerate nebraska.

HANK ROBINSON: Hank Robinson, H-a-n-k R-o-b-i-n-s-o-n, University of Nebraska at Omaha.

SENATOR COOK: Thank you very much. Thank you for joining us.

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GREG ADAMS: (Exhibit 1) If you notice, it's Dr. Robinson that's doing all the computer things and the data stuff. I'm just a mouthpiece (laughter). Well, first of all, thank you for giving us some time, and particularly Senator Cook for putting us on the agenda. I want to modify the title and where we're going with this a bit. It really isn't just about accelerate nebraska. That was just the initial part of this and it has evolved into something that we believe is far more significant and particularly for the Legislature. Let me digress just a little bit. As I was about to leave the Legislature, I was approached by Ken Bird with Avenue Scholars and the chairman and CEO of Mutual of Omaha Banks. And they said we see a problem in the state in moving kids through the education pipeline successfully and filling jobs. And in the Avenue Scholars world those jobs, not exclusively but primarily, are jobs that move kids into the community colleges. They're vocational/technical jobs. For Mutual of Omaha, it was entry-level jobs that Mr. Schmid was concerned about. Accelerate nebraska started in July of 2014; and if you'll recall, Cathy Lang, former Commissioner of Labor, joined me in that effort. And in August of 2015, we were at a point where each of us, Cathy and I, felt like I knew some things that I felt were needed improvement on the education side, from her background she thought there were things on the labor side, but we had no confirmation of any of it, any data confirmation. It was purely anecdotal and based on our experience. Accelerate contracted with FSG consulting out of Seattle in August of 2015 and their charge for us was to look at the Nebraska education pipeline from high school...we had no funding to go back any further than that, so we started in high school and we wanted them to look at postsecondary, whether it be community college, four year, College of Hair Design, whatever it may be, and look at that pipeline into career, and to take a little extra time and look at the labor market. Now in doing that, I just want to give you a snapshot, just a quick snapshot of what we saw, and it won't come as any particular surprise to you. And then what I...what Hank and I are hoping for you to see is once we got through the pipeline and into the labor market, the FSG study identified a clear imbalance that we have in our labor market that all of you are already aware of. But that's when accelerate sat down with Dr. Robinson at UNO. Hank is the director of institutional research at UNO and he'd already been doing some rather significant research on the labor market in Nebraska. And we took what he's found and the FSG stuff, we also looked at the SRI, the Battelle studies, and we rolled them all together and what we want to try to do today is just highlight some things for you. We're not advocating any particular policy shifts, but we think Nebraska has some things that they need to think about as we go down the road. The educational pipeline, there are some rough edges inside

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of it, but for the most part we are pretty good in Nebraska. The few snapshots that I sent out in advance, we have a high graduation rate. And we could sit here all morning and argue about, well, how valuable is the diploma from this institution or that institution? Arguable, all right? But the point is this year we're number two. Last year we were number one. We have a wrestling match with Iowa for number one or number two. And whether our diploma means as much as it ought to or not, it sure looks a lot better to be in the top one or two than in the bottom. And that's where we're at. We have a lot of kids in Nebraska that take the ACT, well over 80 percent of the kids, and that's prior to your action during this last legislative session which set the ACT over its equivalent as an 11th grade requirement. So if you back up from that, where we're at right now, we have a sizable number of our students who are taking the ACT and that in and of itself is an indication of a college-going culture that we have in Nebraska, just the fact that even though prior to legislation it wasn't mandatory, we still have 80-some percent of our kids taking the ACT. They're thinking college, college, college. And by the way, they're doing fairly well. You know, we typically score on the composite, we typically score at or slightly above the national average. Admittedly, like a diploma, you could disaggregate that and look at some college-readiness measures and we start slipping a bit, but that's where we're at. We rank in the top ten in the nation for kids' college going, and by that, that is high school seniors that matriculate in some form of higher education within 12 months of their graduation. That doesn't take into consideration the nontraditional students. These are the people coming right out of high school. So if you think about just those snapshots, we are doing awfully well in Nebraska at sending kids through the pipeline and getting them into the four-year world and into the two-year world. It's a little tougher there when you start looking, and I sent that out to you, some of our developmental education numbers. We have some work to do and we're already working in the community college, with all of them, about recognizing that, whoa, we have this many kids getting tripped up not on the ACT, but the ACCUPLACER which is used at the community college level. And we need to do some things better and there is some really, I believe, this is just me now, there is some low-hanging fruit. We could improve those numbers in pretty short order. There may be some more systemic things as well--we'll see. You know, in capsule, we've done one heck of a job in Nebraska over decades, by the way, decades--this didn't happen just in the last few years--of developing high school curriculum, hiring high school-qualified teachers, and developing in parents, in guidance counselors, in principals and teachers a college-going mentality, and the numbers show it. We have a lot of kids going. I know what Hank's thinking: Let me tell you

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about all those kids. I'm going to let you in just a minute. When we got into the labor market side of all of this, we have all these kids moving through, we get into the labor market side what we see, and I want to really focus on this, what we see are two imbalances in our labor market. And they're not necessarily anybody's fault. But K-12 is going to have to look at the imbalance. Higher ed is going to have to look at it. The business community is going to have to think about it. Advantage Act folks are going to have to think about it. Revenue Committees are going to have to think about it. Everybody's got a foot in the door on this thing if we're going to turn it around. The first imbalance, the FSG study tells us that between now and the year 2022 well over 70 percent of our jobs in Nebraska will require less than an associate's degree, typically will require some kind of additional education but not very much, not very much. Now what I wouldn't want you to do is say, well, there's the hue and cry, let's just close the doors at the university, let's close the doors at the state college or the community colleges. That...you all know the plumbers, the electricians, the construction folks. The list goes on in the technical/vocational world. That void is there because we've done so well in Nebraska at at least two things: (1) sending everybody down the four-year route; and (2) creating jobs for the sake of creating jobs. We haven't asked ourselves about the quality of the jobs we're creating. We're patting ourselves on the back for having just created a job. Nothing wrong with that either, except now we want to show you it might be starting to catch up with us. I can tell you that if you look at preparing students for vocational/technical, there is--and you know it because you've looked at your own schools within your districts and I've been all over the state--there is a movement in the state, and it's a good one as long as we don't overreact, it is a good one to say we're still going to move kids down that four-year pipeline but maybe we ought to take a look at our curriculum and how well we're doing at capturing those students that either don't fit down that four-year pipeline or don't want to fit down that four-year pipeline. And we can find a place for them in that labor market that's crying for the electrician, for the plumber. We can do that, and whether it be through career academies or dual credit or just simply--this may sound strange to you--just simply in many places in Nebraska reopening the industrial arts classroom that got closed a long time ago in order to make room for more college preparatory classes. That doesn't mean we dummy this stuff down. Even the plumber, the electrician has got to know a lot of stuff, a lot of stuff. But we begin to fill that void. But as we do that, I want you think about something. I'll bet you that every economic development speech you hear, seminar you attend: labor shortage, labor shortage, labor shortage. What Dr. Robinson and I want to show you is that we

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don't necessarily have a labor shortage. Now we may in many of those vocational/technical fields, undoubtedly, and we've got to work on that. We have--I'm going to use Hank's analogy if he doesn't mind--we have an Ogallala Aquifer under us of labor and we're not tapping it. We're not tapping it. We have a number of people that we have moved through the higher ed pipeline to the point of a credential or the point of an associate's degree or the point of a bachelor's or a master's degree. And if they're here, many of them are underemployed; they are underemployed. And, oh! A moment ago you were talking about revenue sources. What if they were working and being paid commensurate with their level of education and skill? Hank's got some numbers for you. So not only is there underemployment but if you look at the surrounding states and compare Nebraska to our out-migration of our college graduates, I mean, it's not crisis level but the reality is we're losing them. Are we losing some to Colorado because of mountains? Heck, yes. I get that. But they're not all going there. They're going elsewhere. And is it because of wages? Maybe. We're not here to advocate that arbitrarily we need to go raise wages. That's not it. What we're saying is that Nebraska has and spent a lot of money and a lot of investment preparing an educated labor force and they're there and we're not tapping them, we're not getting to those people, we're not getting into that Ogallala Aquifer and maximizing the use of the existing labor force that we have. So we have an imbalance at both ends: not enough jobs for these people that we've educated and a whole lot of jobs and not enough people educated for these vocational/technical jobs at the other end. That generally is the thing. Now I'm going to turn it over for a moment to Hank and let him drill in even further.

HANK ROBINSON: When you take a look at the three or four major economic development reports that have come through the...Greg talked about it. You can see that when they look at the economic system in the state of Nebraska, they look at the work force, they look at wages as an indication of the value of the output. When they look at means of production, there's a couple of sections they can get into. They can get into the infrastructure, the resources, the capital. They can't really get into the methods of production--whether something is an automated manufacturer or still relying heavily on manual work inside. But the only way...I mean the hard reality is that for any economic system, your work force and your means of production have to cost less than the value of your output or else you go out of business, you go bankrupt. So the wages in the state of Nebraska reflect for us the degree to which employers in the state of Nebraska can leverage the educated work force, to pay them. And in Nebraska we lag in wages compared to

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the rest of the country pretty substantially. Greg has talked about the college-going culture, but the other part of it is that more than 60 percent of Nebraska's work force has more than a high school education at this time. We go and we look at the means of production, some of the most important things that came out of the reports, especially SRI, was SRI said Nebraska is at or exceeding its existing infrastructure in the state of Nebraska. And it also went so far as to say that in substance Nebraska is not going to recruit its way into a new economic model. It's not going to attract the types of businesses with Googles and Apples of the world for a number of different reasons that are in the report. And it also said that the wage structure is so poor in the state of Nebraska that it's not likely to attract people coming into the state of Nebraska to do anything except work in some of those lower skill jobs because we're at 98 percent employment. And so if you are low skill, you have a fairly decent chance to come to the state of Nebraska and find a job somewhere at minimum wage or so. Among the other findings that SRI had was that the Advantage Act does not incentivize technology or capital-intensive investment. And it did say though that agriculture is distinguished from almost all other industry sectors in the state of Nebraska in terms of its access to capital, that farmers and ranchers, they don't have an easy time of it by any stretch. But the capital markets are set up to support them as they go through multiple years, whereas a manufacturer, small manufacturer, for example, in the state of Nebraska, they don't have three or four years to weather a downturn in the economy. And so they have a much different risk portfolio when it comes to investing in upgrades to their technology and upgrades to their work force. You've got a data table in front of you. The high points of it I'm going to say and we're going to look into is that Nebraska employer is overly reliant on low-skill jobs. If you take a look at it, to give you an idea of what that means, I'm going to use the cursor here. You've got three columns of colors there. When we go through and we look at the value of the work force...I'm sorry, if we look at the value of the labor market based on number of degrees that there are, Nebraska's labor market is worth about \$36 billion. Its work force, however, when you look at their education, is worth about \$47 billion. When we look at cost of underutilization, what's happening is since we're at such a high employment rate and there's not enough jobs for people with master's degrees, bachelor's degrees, associate's degrees, they're competing for jobs that require a high school diploma. And so the people who get left out are the people who have a high school diploma because you can hire someone with a bachelor's degree at high school wages to do the same job and there's not a lot of options in the state of Nebraska. Chamber of Commerce...or, sorry, the Department of Economic Development did a study in Omaha a few

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years ago and asked employees in Douglas and Sarpy County, what would you need to get a better job? And 20 percent of the respondents said, I would need a job at my degree level; and 20 percent said, I would need more education. But what's happening is the ones that need more education are the ones that are displaced by people with higher credentials and more education holding down those jobs. And that's why they're saying, I need more education. And the ones that are saying "I need a job for my degree level" are the ones that are doing that displacement. So one of the impacts in terms of revenue in the state of Nebraska, (1) we're losing about \$11 billion in income even if...even as depressed as Nebraska's wages are relative to the national average, even when you're adjusting for cost of the CPI, if Nebraskans...if the work force in Nebraska was just employed at its degree level and earned the average wages in Nebraska that are paid at that degree level, you can see that it would make a net difference of almost a billion dollars in our income tax receipts with no change to the tax schedule, no change to anything else, just that people are in a job that can compensate them and take advantage of their education and technology to achieve a higher level of output, higher value in that output to, of course, sustain those wages. You can also...the difficult thing about the SRI report saying you're not going to recruit your way out of this is what they're essentially saying is, Nebraska, you're going to be a state of 1.8 to 2 million people and your state is not going to get any smaller, you're not going to have any fewer roads, you're not going to have any fewer sewers. And the only way for you to grow your tax base is to look at examples from, like, Oklahoma and Arizona where they incentivize investment in technology and capital-intensive industry sectors. And they invest basically in the people who are in the state trying to make a go of it, you know, people who want to live in Nebraska, people who are trying to have a business in there, invest in them, help them "up-convert" the jobs they have right now, help them "up-convert" their methods of production. And then you have an educated work force that's able to move into those jobs and unlock that capital that would be available to keep Nebraska competitive.

GREG ADAMS: One of the...this may seem naive, but I think it really helps to make the point. As Hank and I and Lindsey were looking at all of this, it became very clear that if you look at the number one industry in the state, agriculture, you know, how do you measure in macroeconomic productivity growth? Well, one of the things you do, you measure output and put it up against units of labor. How many units of labor did it take to increase the output of your commodity or the service, whatever you're providing? Well, you know where I'm going. When you go back to

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the time we drafted our constitution, about 90 percent of Americans were directly involved in agriculture and now, complete flip-flop, we're producing like crazy. What's the difference? Have we increased the amount of arable land? To some degree. The real difference is the use of technology, the use of technology. Now when we've done that, when we've done that, we've increased our output, we've certainly increased the value of revenues to the state of Nebraska, and one could argue, yeah, and there's fewer and fewer farmers around. Undeniably. Undeniably, there is. But now at the same token, look at most of our rural communities, and I'm going to use mine: York. There aren't as many farmers around. Hasn't been any less land taken out of production, but there aren't as many farmers directly involved. But what you do have are all of these tangential support positions that have been created: the agronomist; the geneticist; the seed corn companies; the kid coming out of community college that really needs to know how to work on these diesel engines and the GPS, not only in the tractor but on the pivot; and the veterinarian and the veterinary assistant. And that's not a matter of raising wages. Those people, because of their need in agriculture, they warrant that higher wage. But it's really been technology that's...you know, take aside the cash flow issue that you talked about--which is real, I know--and look at it from a macro perspective, it's been technology. I talked to a young man in Omaha who works for a credit lending agency for agriculture and he said, I couldn't be in a better place for lending. And he doesn't lend for purchases of land; he lends for higher risk, entrepreneurial innovation efforts related to agriculture. And he said, well, first of all, we're used to innovation in the ag world, so for me to sit down and do a loan is not that unusual. And of course the risk, the land is there to help back some of those things up, which is different. You know what else he said? He said, in ag we don't have any middle management that gets in the way of ideas. Now take that for what it's worth. But I'm trying to describe that entity that has done so well in the state and not eliminated jobs. Look how many students are coming out of our universities and our community colleges and going into ag-related fields, but they have required a higher level of education to do the work that's necessary today. Do you have anything else, Hank, that you wanted to add?

HANK ROBINSON: Just that, you know, when Nebraska finishes in the top five in the United States every year for agricultural productivity, that means Nebraska is top five in the world in agricultural production per acre. So this is not a matter of Nebraska's aspirations have to be bounded by some way because we're a state of 1.8 million people; we've demonstrated through

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the way we've leveraged science and technology and education and capital investments and agriculture that when those things come together well, we can lead the world in this stuff. Well, we've done a great job setting the table with a talented work force. We just need to uncork that bottle now and start taking advantage of it, start emulating the model of success that we have with agriculture and we can be nationally competitive in many other industry sectors in addition to this. Between 2008 and 2015--and, granted, the commodity prices certainly helped a lot--but between 2008 and 2015, Nebraska farmers realized a 41 percent increase in productivity per acre of land. They're using less water. They're using less fertilizer. They're using less diesel fuel. I mean we can apply that kind of innovation, that kind of creativity, and that kind of risk taking to a lot of other industries in Nebraska. But what SRI is telling us is you're not really well organized to do that kind of thing right now.

SENATOR COOK: Senator Hadley.

SENATOR HADLEY: You have a bullet point here that says, "Underemployment costs Nebraska approximately \$11 billion annually in lost wages." I couldn't find it. It's probably in there. Is there a number of people that are underemployed in Nebraska?

HANK ROBINSON: Yes, Speaker. It's on this...I don't know if you have a copy of this handout here.

SENATOR HADLEY: This one?

HANK ROBINSON: Yes, sir. What it's doing, what it...just in summary--we won't even get into numbers--in summary what it's doing is across this top table it's saying here's how many people in the state of Nebraska have this degree as their highest level degree and this is the number of jobs there are. So if we look at the associate's degree, for example, we've heard for...I've heard for five or six years from different areas that we need to concentrate on associate's degree, we need to get more people through an associate's degree. But if you look at that second column there, work force seeking job, 80 percent, there's 92,000 people, 92,084 people in the state of Nebraska with an associate's degree. Okay? That's just under 10 percent of our active work force. There's only 43,000 jobs in the state of Nebraska that require an associate's degree at the national

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level. We may have employers saying this is a job that requires someone with an associate's degree, but it doesn't on the national level. It may be used in the state of Nebraska (inaudible). So even when we just look at associate's degree, there's twice as many people in Nebraska who have done what we've asked them to, which is stay in school, get through, get your degree done, and go to work, and they come out and there's one job for every two of them in the state of Nebraska.

SENATOR HADLEY: I guess the reason I asked that, is there a...I know I'm not going to use the right term. But those people that have that level of training or education that cannot find employment, isn't there kind of a cost to society from their psychological well-being because you meet...you know, being in higher education for 35 years, you know, it's difficult because we tell kids when they come into higher education...I was in the business college so, you know, that there's good jobs out there and, boy, you're going to be well paid. And then you run across one of your grads that's working at a clerk's job someplace and they look at you and, well, you lied to me, right? You sold me a bill of goods and I was going to get this path that...so, you know, there is a cost I think to those people who are underemployed, you know, just in their day-to-day living.

HANK ROBINSON: You make such a good point and there's two different examples that Greg and I have come across. One example is I think everybody probably knows who Hudl is, started up in 2008, 2009--you know, Star Wars level of technology and stuff. And I was at a meeting with them and I asked them. I said, you know, we keep hearing at the university that there's a shortage of STEM workers and computer workers and programmers and developers, what is your experience at Hudl? And they said, we get 125 applications for every opening that we have and well over half of them are qualified to come to work at Hudl. We have graduates leaving UNO working for NSA, the Department of Defense, Apple, Google, PayPal, the federal government, I mean, all over the place. But we also have students coming back from internships that they've done while a student at...or interviews and have said there's no way I could go to work at this company, and it's a billion-dollar company in, you know, Omaha. And, well, why not? They're running Windows 2003 or they're running AS/400 servers from 1998. The work...the education system prepares our students to be internationally competitive but that's not the same work force...that's not the same labor market that they face when they come out. And by contrast, you know, the other example I have is we've had administrative assistant positions

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open in the College of Business Administration within the last year. We've had 125 applicants for ours, too, and they have law degrees and they have MBAs and it's a \$30,000-a-year position. But it's better than what the alternative is for them out there.

SENATOR HADLEY: And that's hard on the psyche, isn't it,...

SENATOR COOK: Um-hum.

SENATOR HADLEY: ...because when I had LA...or AA positions, law school graduates applied for that position.

GREG ADAMS: These are people who want to stay in Nebraska.

SENATOR HADLEY: Yeah.

HANK ROBINSON: And want to work.

SENATOR COOK: Yes. All right. I saw Senator Riepe's hand, Senator Gloor, Senator Schumacher.

SENATOR RIEPE: Senator Cook, thank you. As I hear the discussion, it takes me a little bit back to what Joe Biden said: that the problem here is a three letter word: j-o-b-s, if you remember that little comical piece. And, Speaker Adams, I picked up on your 70 percent of the work force will require less than an associate's degree and my comment is this: and yet--and yet the university asked for a 4 percent increase in revenue and a 2.5 percent increase in its tuition. It seems like we have a disconnect here in terms of where we're intending to put resources that we probably need to put fewer resources at the university level and more at the community college level.

GREG ADAMS: Well, (laughter) (inaudible)...

SENATOR COOK: What a tee up.

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_____ : Was that a loaded question?

GREG ADAMS: You know, let me take the community college/university, just put them in the higher ed bucket. Senator, you would look at that and you'd say, well, maybe there is a disconnect. But I think on the one hand, there is work that needs to be done at the community college level. They're the flexible entity. They're the vocational/technical, the transfer. They take the student, because of the state law that's open access, they take all comers and try to bring them into this education world. There's no question there needs to be focus right there. At the same token, without getting into whether it's state colleges or universities, I don't think we want to dummy down and say, ah, let's back away up there. I think it's the reverse. What we ought to do is through Advantage Act or whatever methodology that the Legislature develops, we need to find a place for these kids that we're educating.

SENATOR RIEPE: I guess I don't view it as dumbing down; I view it as setting priorities and saying...I'm a firm believer if you can't be...like Avis car rental, if you can't be in the top of the select programs, you don't just necessarily as a state have to have every program. But you need to inventory, rank them, figure out what you can do really well, and do it well. And then to some others you might say we don't offer that program in Nebraska.

GREG ADAMS: Yep. There is value in (inaudible).

SENATOR COOK: Senator Gloor then Senator Schumacher. Thank you.

SENATOR GLOOR: Well, and I don't want to pile on here, but, you know, if we were to take a look at some of the better value jobs with degrees and advance degrees and whatnot, I'm afraid what we would see is, and maybe there are some numbers out there, but I'm afraid we'd find a lot of those folks gravitated and were trained in ways that send them into the service industry. And I'm thinking of healthcare. But when you consider a lot of those jobs are funded with tax dollars, I mean, I always worry about the service industry driving the economy because it's not as if we're manufacturing wealth the way that we do through a Hudl or other jobs where something is being created with a value that can be increased and passed along. And again, to the service industry, there can be ripple effects, but usually those ripple effects are through the service industry and

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again involve tax dollars to a large extent. And so you're moving money from one pocket into another as opposed to creating wealth. And part of my concern within our own labor market is a lot of the attractiveness that we used to see at the hospital in bringing people to the state of Nebraska when I ran a hospital, public education, and so on and so forth, competitive jobs, at least at that arena, I felt good about that but I also knew we're not creating jobs as if we were a large "Silicon Prairie" type of company that was taking college graduates and recruiting them from across the country to create a product that adds wealth to our state's economy. And therein lies one of the problems. If we were to prioritize, I bet we'd find ourselves saying, wow, our nurses, our respiratory techs, our family practitioners aren't having a problem finding jobs at all, let's double down on that. Well, we need to make sure we address a need. But that's not the kind of economic growth I think we're talking about when we look at these numbers, it just isn't, and I worry about that a lot.

SENATOR COOK: All right. Thank you. Senator Schumacher.

SENATOR SCHUMACHER: Thank you, Senator Cook. So, I mean, you mention that we were sitting on top of, what was it, number five ag producer, or something, in the world, something of that nature. It has to represent a huge amount of wealth, it just has to, and probably long-term wealth until we figure out how to color ourselves green and live off the sun without eating. So enormous amount of wealth, very few people, we should be dripping in money. Okay. And in fact, we probably are dripping in money. And you can pay \$10,000, \$15,000 an acre irrigated land. That's a lot of money. Then you have the concentration of multimillionaires that exist in the Omaha/Lincoln area. That's a lot of money. So there's capital. There's available money if it found a place to place itself. And we apparently, if this study is accurate, have a fairly educated work force that is waiting on the sidelines to do something more than sack groceries. So where is the strategic deficit in the system? Is it in our financial sector, our legal sector? What is stopping us from having the know-how to put those two resources together and generate GDP?

GREG ADAMS: You want to go?

HANK ROBINSON: I can.

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GREG ADAMS: It's probably...you go ahead. You've got the numbers. And then I'll chime in.

HANK ROBINSON: It's probably a combination and it's probably generational. It's probably a little bit of historical effect that 40 percent of the businesses in the state of Nebraska have between 25 and about 500 employees. That doesn't give you a lot of scale or critical mass to risk your bottom line by investing in a half-million dollar piece of equipment that somebody with a college diploma runs instead of the four guys with high school educations that are running. And if you have profit margins in those size of businesses in the state of Nebraska--which does include manufacturing, it includes not government-supported services but actually profitable level of service, you know, private profit-type services, without some kind of safety net or backstop, I'm putting my family's livelihood on the line by making investment in that and taking the risk that if I bring in somebody that's going to cost me more money, that at the end of that two-year period I'm going to be able to pay them what I need to keep them there. So I think part of it has to do with risk. And I frankly think Lindsay is one of the best examples of the alternative with Lindsay irrigation, you know, and that...but what happened? There was a lot of capital there that got dropped in there and now Lindsay, Nebraska, has a really nice manufacturing...you know, has a pretty good manufacturing operation in a fairly small town in the state of Nebraska, when a lot of other towns have lost theirs. When I was growing up in Oshkosh, Nebraska, Marshalltown Industries (sic--Instruments) was there. Before I left, it was gone, and so but, you know, they were sewing things with sewing machines and they were doing 1970s, 1980s technology.

SENATOR SCHUMACHER: But the management level at Lindsay is no longer in Lindsay. It's lucky if it's in Omaha. And that's the flip side of that coin. So are we caught in this web that we really can't get out? We've heard it, you guys have said it, the entrepreneurial and other task forces that are drifting around this session, this interim, have said it, the word keeps coming up: critical mass. What...should we limit the focus of what industry we want to play in so that we get critical mass? We obviously can't expect to have critical mass in biomed, critical mass in computers, critical mass in this Silicon Valley design, critical mass in nuclear energy, critical...I mean we're spread too thin; we don't have any people to begin with. So how do we focus it and how do we bring the...our legal and our financial...I'm personally beginning to think it's a real deficiency in our system that we may be focusing on how you...piling boards together when we

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really should be focusing on how you put money together. So how do we do this? I mean we're...what can the Legislature do without any money to make it happen?

HANK ROBINSON: Well, not every small business owner, not every one of those businesses between 25 and 500 employees have any interest in changing whatsoever. (Inaudible) are around 5 or 6 percent consistently and they've got their groove and they've got their momentum and they're five years from retirement or ten years from retirement. There really is no incentive for them, you know, whatever their industry is, for them to take that kind of a risk. On the other hand, there's a lot of people in the state of Nebraska that want to be in the state of Nebraska in every industry sector. And if we have, I don't know, 80 pool companies in the state of Nebraska and they're all in a room and there's only eight in the front row that are saying, I'll change, I'll go to different levels of...I know what I want to get but I can't figure out how to get...I know what I need in terms of capital, maybe it's not as difficult question as it seems at first because maybe all we have to do is just figure out a way to support the people who really do want to upgrade and "up-convert" and go to leading-edge technology and work with them because they're ready to...they've already got skin in the game and they're willing to put more in. And we need all of the industries.

GREG ADAMS: I wonder. I wonder, too, Senator, if part of it, like so many things, it's an economic development culture that we have developed in the state that needs to begin to change. Now by that I mean any one of us in here could think back. I bet every county in the state of Nebraska has an economic development director. Larger cities have economic development directors and there are economic development districts. And the bottom line at the end of the year, how do we measure the effectiveness of our economic development director and our various districts and communities: How many jobs did you bring to town?

SENATOR GLOOR: Yep.

GREG ADAMS: Rarely do we ask about quality. If you get a quality job, that's a double whammy. Way to go! Imagine this. What if an economic development director said, no, we're not going to provide TIF, we're not going to provide any revolving CDBG monies for this company, we're not going to provide free land, we know it's bringing 30 jobs but they're all slightly above

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minimum? They'd be fired. And if the city council didn't support that, they'd be in trouble too. It just...it compounds itself. I mean that's the benchmark by which we measure. Then delve into the Advantage Act. A lot of momentum behind it at the time that it was developed but it, too, I believe in my interpretation of it, is primarily about quantity, quantity, quantity. Well, we've created a lot of jobs. It worked. The mind-set of economic developers, the mind-sets of city councils, the mind-set of the Legislature in the Advantage Act, we've created a lot of jobs. But what primarily have we created, what kinds of jobs? And then think about where that void is at where we don't have enough labor. It's a lot of those kinds of jobs. We...I wish I knew how we wave the magic wand over all of these economic development directors and, well, maybe even the Advantage Act and say, what's the 21st generation of this thing supposed to look like? I'm not advocating you do away with it. But does it need to look different? Does it need to be focused somewhere else or is it just about how many jobs can we create whether we can fill them or not, how many jobs can we create regardless what they pay, how many jobs can we create? It isn't going to happen overnight.

SENATOR COOK: Senator Riepe.

SENATOR RIEPE: Thank you, Senator Cook. A quick question, my...you...I want to quantify this a bit. Give me a dollar level in terms of what you'd consider a "good" job. Is that annually \$40,000 to \$60,000 or is it \$60,000 to \$80,000 or do you have a number just to be able to reference off of?

GREG ADAMS: I guess I don't. Hank, do you have a number (inaudible)?

HANK ROBINSON: You know, as far as this data goes and what (inaudible), I think the answer is people are earning the average for that degree level and stay in Nebraska. And so if we look at, on here, if you have an associate's degree in the state of Nebraska and you're employed at degree level, you're making about \$52,000 a year. If you're employed at degree level by your bachelor's degree, you're making about \$70,000 a year. And those are the averages across. Of course there's going to be some people making more, right, and some people making less. But what's reassuring about that is that those employers have found a way to employ somebody at least at the average level of salary in the state of Nebraska and cover that salary and come out ahead

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based on the output that they can get from that employee. And so if there's a magic number it would just be what do you need in order to get the full value out of that person with the level of education that they've got.

SENATOR RIEPE: I read one in The Wall Street Journal a couple of days ago and they talked about increase in Social Security tax and it said we're going after the wealthiest in the country. And I thought, oh, that's interesting. I read on. Their wealthiest, as they described it, was annual income of \$127,000 for a household of two. I'm kind of going, that might work in Nebraska, it doesn't work on the coast. And I'm not convinced that if you make \$127,000--that's before taxes--that you're wealthy by any means but...

SENATOR COOK: Hmm. Interesting. Senator Johnson.

SENATOR JOHNSON: Thank you. I hear once in awhile, or we hear and you talked about, that the degree and the type of job and they're overqualified. People go in and say, I can't get job there because they say I'm overqualified. Is it the employer saying that, that they're...or is it the potential employee that's saying that doesn't match up with my qualifications and I'm not going to go work there so they...you know, why can't they be hired?

HANK ROBINSON: Well, you know, we have a CEO...we were going over the data with a CEO of a, you know, a major Nebraska business and we're talking about these bachelor degree level and associate degree level employees are getting jobs and pushing the high school applicants who would otherwise be qualified, you know, they're displacing them. And he shook his head and disagreed vehemently. He said, that won't happen in my business. He said, I would never hire someone with a college education, take over one of these jobs that requires a high school degree. Well, and why not? And he goes, oh, they're just terrible; they have the worst attitude; they are unmotivated; they don't want to show up for work. And he said, and all they have to do is get another \$1 an hour and they go take another job. Well, there's kind of a chicken and an egg there. You know, you've hired somebody who's borrowed money, who's put...who did what they thought they were supposed to do, put in time to get a degree to be an employee. They applied for a job that requires a high school diploma. They got there. They're capable of doing more. And they're still continuing to look to be employed at their degree level. So, yeah, attitudinally,

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they probably are not a great employee, but it's because they're not being utilized at their full potential.

GREG ADAMS: You know, I think a 3 percent unemployment rate also has a lot of impact on who is saying what to whom. I mean what we hear is, and we know it from a macro standpoint, if you're at 3 percent, you're in effect at 100 percent employment of everybody that wants to work. So then you have companies out there looking and my guess is they're...and I can only say I'm guessing at this. They need bodies so they're taking their qualifications and maybe even erasing that B.A. degree off that statement on Monster.com. And just bring me the people, then I'll decide what I want and, odds are, I'll get somebody with a bachelor's degree, don't have to pay them that. So I think it's probably both, Senator. You've got prospective employees coming in saying, I'm not going to work for that because I'm educated. And then there's also the employer saying, I'm in a situation right now where I need warm bodies, I'll take what I can get, I don't care what your degree is in; high school degree, all right, I'll take that.

HANK ROBINSON: But SRI identified our work force and its level of education as a major asset to the state of Nebraska, a competitive asset to it, and not just because they're educated but because we are at 98 percent employment. People with bachelor's degrees are not sitting around waiting for somebody to come find them. They're working at SCHEELS. They're working wherever they can work. We've got the work ethic. We've got the education. We just need to figure out the \$11 billion question of, if we've got this, how do we unleash it?

GREG ADAMS: You know, the work ethic issue may be not ethic but those soft skills. We hear that a lot. And I think part of that is because you have, in effect, 100 percent employment so the people that I'm getting through the door at entry level maybe lack a lot of the soft skills. But at the same time, one of the things I think we need to look at in the state is we're not having a lot of our kids have real job experiences before they get to the job. You know, maybe it's, "I worked at fast food." Well, good. Your supervisor was one class ahead of you last year and...I mean that's kind of a shot across the bow. But I mean real, real serious job experience where you've got to be here on time, you've got to show up, you've got to dress right, those kinds of things, a lot of that doesn't exist.

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SENATOR COOK: Dr. Robinson, I have a question. Certainly these numbers really resonate when I know what's going on in Legislative District 13, particularly among families living in poverty. The underemployment is very evident because they work more than one job in the service industry. Have these statistics been teased out by not even legislative district, but by high-poverty census tracts to try to identify...like it's 3 percent across the state but there are parts of my district where it's 12 to 20 percent unemployment and then the underemployment rates would be higher too.

HANK ROBINSON: The answer is, no, the data doesn't support reasonable emphasis be drawn at that level, at least with the data that we have access to, in order to get down to that. What it does support though is this idea that if we're at full employment, it...one, it makes sense, the people with the least credentials are going to be the last hired.

SENATOR COOK: Okay.

HANK ROBINSON: And number two, you'll notice that this is 80 percent of degree holders. Well, that reflects the fact that as a general rule of thumb, you can expect about 20 percent of your work force to either be not looking for work or to be your entrepreneur class. And so one of the things, one of my theories was that when I went and I looked at the data to see who it was that was our entrepreneur class, I was going to find a bunch of bachelor's degree holders who, frustrated with the job market, were going out there and starting businesses. But to your point, it was not that at all. Our entrepreneur class was being made up of people with high school education or less. And it makes perfect sense because if I can't get past this guy with a bachelor's degree to get this job that requires a high school diploma, I'm not going to waste my time doing that. I'm going to start my lawn business or my roofing business or, or, or...and so indirectly it does substantiate what you're saying is that there are high obstacles to regular employment with an employer the less education you have in the state of Nebraska.

SENATOR COOK: Um-hum, right. Thank you. Any other questions? Not seeing any hands, thank you very much. It's good to see you.

GREG ADAMS: Thank you for the audience this morning, appreciate it.

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SENATOR COOK: Thank you very much.

HANK ROBINSON: Thank you.

SENATOR COOK: If there are questions and we think about them later, we can always e-mail those to Dr. Robinson. We'll move down the agenda. Are there any reports from the subcommittees? All right. That's the case. Our next meeting, in November already, is going to be out at STRATCOM. We're going to combine where people are going to be gathering next month. We just plain ran out of Fridays in November with the Veterans Day holiday and the Thanksgiving holiday. So you'll be getting reminders about the location. The time will be 12:45 to 2:45 on November 18 at Offutt. That's for our...

SENATOR HADLEY: The 18th is a Friday?

SENATOR COOK: Yeah, it's a Friday.

_____ : Two forty-five it's over?

SENATOR COOK: Yes, sir.

SENATOR RIEPE: Until 2:45?

SENATOR COOK: Yes, that's the plan. Now if it doesn't go until 2:45, I anticipate that our committee members will not dissolve into tears and demand that it go until 2:45, so. And 12:45 is our estimated time beginning because there will be a budget discussion going on before that. So stay tuned but we will not be at the Capitol next month but we'll be meeting at Offutt, so.

SENATOR GLOOR: Are we talking about...does the Legislative Council end at noon? Is that why we're talking about starting at 12:45?

SENATOR COOK: That's what we've been told. It has...we have not been guaranteed an end time because it will be a budget discussion.

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SENATOR RIEPE: So is this going to be a "to follow" meeting as opposed to hard fixed on 12:45?

SENATOR COOK: We're saying 12:45 because we can't say 12:15.

CHRISTINA MAYER: Senator Krist did not want to put a hard end time on the discussion of the budget because it's important. So the theory is that 12:45 will give you guys time to go get some lunch and then come back to start the meeting. So if the budget discussion cuts off short, we can always move it up a little bit potentially, not a ton. We'll have to have our presenters, but we can also...we have some wiggle room.

SENATOR GLOOR: That's also the date that is enlisted as a potential date for the Tax Rate Review Committee.

SENATOR COOK: Really?

SENATOR GLOOR: Yeah. I don't know if that's on your agenda, but...

SENATOR COOK: Time keeps on slipping, slipping, slipping into the future.

SENATOR GLOOR: ...1:30 to 4:00, so there may be a conflict.

SENATOR COOK: All right. Let's keep talking about it. Thank you very much.

SENATOR RIEPE: Thank you.

SENATOR COOK: Thanks for coming.