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Appropriations Committee  
March 15, 2017

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[LB331 LB356]

The Committee on Appropriations met at 1:30 p.m. on Wednesday, March 15, 2017, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB356, and AM494 to LB351. Senators present: John Stinner, Chairperson; Kate Bolz, Vice Chairperson; Rob Clements; Robert Hilkemann; John Kuehn; Tony Vargas; and Dan Watermeier. Senators absent: Mike McDonnell, and Anna Wishart.

SENATOR STINNER: (Recorder malfunction)...my name is John Stinner. I'm from Gering and I represent the 48th District. I'd like to start off by having members do self-introductions, starting with Senator Clements.

SENATOR CLEMENTS: Hello. I'm Rob Clements from Elmwood, Cass County, Sarpy County, District 2.

SENATOR HILKEMANN: I'm Robert Hilkemann, District 4, west Omaha.

SENATOR STINNER: I'm John Stinner, District 48, all of Scotts Bluff County.

SENATOR BOLZ: Senator Kate Bolz, District 29, south-central Lincoln.

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

SENATOR STINNER: We're missing several senators. They are in other committees presenting bills, some of whom will be back and joining us shortly. We also have assisting the committee today is Jenni Svehla and...our committee clerk. Did I pronounce that right this time?

JENNIFER SVEHLA: Uh-huh.

SENATOR STINNER: Good. On the cabinet to your left you will find green testifier sheets. If you are planning to testify today...planning on testifying today, please fill out a green sign-in sheet, hand it to the page when you come up to testify. If you will not be testifying at the microphone but would want to go on record as having a position on a bill being heard today, there are white sign-in sheets on the cabinet where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearing. To better facilitate today's proceedings I ask that you abide by the following procedures. Please silence or turn off your cell phones. Order of testimony will be introducer,

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proponents, opponents, neutral, and closing. When we hear testimony regarding agencies, we will first hear from a representative of the agency. We will then hear testimony from anybody who wishes to speak on the agency budget request. I would ask that you, when you come up to testify, that you spell your first and last name for the record before testify...before your testimony. Be concise. It is my request that you limit your testimony to five minutes. Written materials may be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and staff when you come up to testify. We need 12 copies. If you have written testimony but do not have 12 copies, please raise your hand now so the page can make copies for you. With that, we will begin today's hearing with LB356. Senator Bolz. [LB356]

SENATOR BOLZ: (Exhibits 1 and 2) Good afternoon, Senator Stinner and members of the Appropriations Committee. My name is Kate Bolz, that's K-a-t-e B-o-l-z, and I represent District 29 here in Lincoln. I am here today to introduce LB356, a bill to change the purpose of existing funds from a tax credit that is not fully utilized for the purpose of establishing a Civil Engagement Cash Fund. This concept came to me during a conversation with a constituent on his doorstep, not only a constituent, actually a neighbor who I see on my morning run sometimes. He suggested that at this time of divisiveness and conflict we can do more to reengage ourselves as citizens and that small steps together can build community cohesion. He also suggested that a Civic Engagement Cash Fund might be a nice step to take on our state's 150th anniversary year. LB356 extends a temporary reduction in the Community Development Assistance Tax Credit Program of \$75,000 a year and dedicates that money to the Civic Engagement Cash Fund that will be located in the Nebraska Arts Council. The tax credit is already designated for community development purposes, which can be used for the physical betterment or development of communities. So rededicating these funds remains in line with the general purpose of the tax credit, but changes it to...a portion of it to a grant program rather than a tax credit. The tax credit has not been used to its full potential. Over the last eight years, between \$79,000 and \$175,000 of the \$350,000 credit has been claimed. So my bill would use some of these funds to award grants to nonpartisan civic engagement projects. The types of projects that could be funded are low- and middle-cost projects, those that promote volunteerism, engaged in nonpartisan voter registration activities, encourage membership in community and neighborhood organizations, and increase confidence in our civic institutions. The bill explicitly bars any funds from being used for organizations advocating for or against candidates or political parties and for activities that make any kind of communication for or against candidates for public office, ballot initiatives, or political parties. At a time when things are divisive, both on the state and national level in some ways, I think there is a real value in bringing together communities to understanding each other better, to communicating and discussing our shared concerns and shared values. Maybe a community will raise funds to make a park safer together and the community is stronger because of it. I'll also point out to you that Nebraska has developed a "Civic Health Index" and these are the kinds of initiatives that are proven to be

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improvements to our civic health, so you can review that during the hearing. It's my understanding that these types of projects sometimes struggle to find funding because they are small and short term in nature and they don't necessarily go through the formal processes that are expected by the more...the larger and more sophisticated foundations. So I hope that the Civic Engagement Fund will fill real clear, community-based neighborhood needs and also achieve the goals of civic engagement and community inclusion. So with that, I'd be happy to answer any questions that you have about LB356. [LB356]

SENATOR STINNER: Any questions? Senator Clements. [LB356]

SENATOR CLEMENTS: Why are we using the Nebraska Arts Council as the grantor? [LB356]

SENATOR BOLZ: Oh, that's a great question. It's because they're well suited for distributing funds like these. They manage Arts Council grants as well as our Cultural Endowment Grants. So because they already have the expertise and infrastructure, it seemed like a smart fit. [LB356]

SENATOR CLEMENTS: I was hoping that was the case. All right. [LB356]

SENATOR BOLZ: Sure. [LB356]

SENATOR CLEMENTS: Thank you. [LB356]

SENATOR STINNER: Additional questions? Seeing none, thank you. Oh, Senator Vargas. [LB356]

SENATOR VARGAS: Can you remind me...thank you for bringing this action. [LB356]

SENATOR BOLZ: Sure. [LB356]

SENATOR VARGAS: I have a few bills that are in the area of increasing civic engagement, specifically voter registration and early voting. I'm just curious, are there any limits to the amount that somebody can request a grant? [LB356]

SENATOR BOLZ: We don't have that written into the bill. We could certainly put some parameters around it so that no individual entity could apply for the whole kit and caboodle. It's intended for small grants but some of that could also be developed by the way in which the fund is administered and the Nebraska Arts Council decides to distribute the funds. [LB356]

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SENATOR VARGAS: Yeah. And I bring it up, we had the same conversation around tourism and how we create some equitable distribution so that any organizations or entities or people that would apply would...they've had sort of a fair, equitable chance to get some funding. [LB356]

SENATOR BOLZ: Yeah. Fair. [LB356]

SENATOR STINNER: Senator Hilkemann. [LB356]

SENATOR HILKEMANN: Senator, you would anticipate then this would be administered by the Nebraska Arts Council. [LB356]

SENATOR BOLZ: Uh-huh. And they're here today to testify if you have specific questions about their ability to manage it or their vision for it. They're behind me. [LB356]

SENATOR HILKEMANN: So what you would envision is you may have some group that will get \$3,000 or some group that might get \$5,000, and some group that may even get less than \$1,000? [LB356]

SENATOR BOLZ: Sure. So just as an example from my community, I'm a participant in the Union College Neighborhood Association. [LB356]

SENATOR HILKEMANN: Okay. [LB356]

SENATOR BOLZ: And they do an annual neighborhood gathering. And this last year there was some discussion about turning it into a health fair because some of the census...some of the Department of Health data about our community found that there were aging people and that there were some challenges with diabetes and obesity in our community. And so they wanted to respond to that community need but didn't feel like they had the bandwidth to put together a full-fledged health fair. And they ended up reaching out to the department of Public Health and lots of things happened. But that could be the kind of project that a small neighborhood association could apply for one-time funds for and make happen in their community, which would bring together social cohesion as well as achieve a purpose. [LB356]

SENATOR HILKEMANN: And would you anticipate that there would be several members within the Arts Council that will be making the decision or will there be one person and we have additional administrative expenses because of this? [LB356]

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SENATOR BOLZ: I...you can ask that question of the Arts Council directly. [LB356]

SENATOR HILKEMANN: Okay. [LB356]

SENATOR BOLZ: The fiscal note just reflects that the \$75,000 would be directed to the grant specifically and the Department of Economic Development and the Arts Council don't put in their fiscal notes any need for any additional staff, which tells me that they can use their existing capacity to administer what is really a fairly small project or program. [LB356]

SENATOR HILKEMANN: Yeah. And I'm assuming they already have this \$75,000; it's just going into other grants that they already have or funds that they already have. [LB356]

SENATOR BOLZ: So the \$75,000 comes...it's basically diverting some dollars that are underutilized in an existing tax credit program and, just to refresh this committee's memory, we used \$75,000 of the Community Development Assistance Tax Credit last year to help support the...Senator Williams' economic engagement initiative. I can't recall the name of the committee. But we have...there's some precedence for utilizing the excess capacity in the Community Development Assistance Tax Credit and the historical utilization has always been below what has been allocated for that tax credit. So I think \$75,000 a year is a very comfortable number to pull from the underutilization of the Community Development Assistance Tax Credit Program. [LB356]

SENATOR HILKEMANN: Okay. Thanks. [LB356]

SENATOR STINNER: Senator Vargas. [LB356]

SENATOR VARGAS: Can you talk to me a little bit about...so it's really helpful to have this "Civic Health Index." How do we, as Nebraska, compare to other states and what's the highest need area? [LB356]

SENATOR BOLZ: That's a very good question and I'll have to open the "Civic Index" back up, but some of the parameters are things like interacting with family and friends, trusting neighbors, doing favors, volunteering, charitable giving, local voting, etcetera. I know that we tend to do better on things like volunteering and trusting neighbors, maybe a little bit less well in some of the other parameters, but I'd have to review it in a little more detail to answer for sure. [LB356]

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SENATOR VARGAS: It's okay. I think that there is some really good data in here and encourage everybody to dig into it. It does rank. I was just curious from your perspective, how this connected to the need for this. So thank you. [LB356]

SENATOR BOLZ: Yeah. So just quickly I did open up the page and a fun fact, one of the indicators that we rank really well on is eating dinner with household members frequently. So Nebraskans can do that well. Good for us. [LB356]

SENATOR STINNER: Is the Nebraska Arts Council going to develop the criteria for the grants and is there going to be a single limitation, like up to \$5,000 or \$10,000? [LB356]

SENATOR BOLZ: My approach to this bill was to give the Nebraska Arts Council the flexibility to implement the program in a way that made sense. We could certainly put additional expectations or parameters. We could put a limit or a floor. We could put parameters around different geographical areas. We certainly have the authority to do that in this committee, but I sort of thought that this would be the kind of program that the Nebraska Arts Council could. I didn't want to micromanage the Nebraska Arts Council. [LB356]

SENATOR STINNER: Okay. Additional questions? Seeing none, thank you. [LB356]

SENATOR BOLZ: Thank you. [LB356]

SUZANNE WISE: Do you...you're the "box." [LB356]

PAGE: Yes, I am the "box." [LB356]

SUZANNE WISE: You're supposed to take it. Okay. [LB356]

PAGE: Do you have testimony that you wanted to hand out? [LB356]

SUZANNE WISE: Just for me. [LB356]

PAGE: Okay. [LB356]

SENATOR STINNER: Good afternoon. [LB356]

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SUZANNE WISE: Good afternoon. I'm Suzanne Wise. I'm the director of the Nebraska Arts Council, and that's S-u-z-a-n-n-e W-i-s-e. Our agency is happy to be the administrator for the fund created and described in LB356. Since our agency is set up to receive and distribute money in the form of grants to nonprofit organizations, civic organizations, and schools, there is no additional administrative fiscal impact. Just as a point of reference, we process 600 grants on average annually. We are happy to provide the structure for this program. And listening to your questions of Senator Bolz, I'm kind of changing a little bit of what I was going to say because I think you need to know that we would never structure a program without a lot of input from the people that are interested in the distribution of the funds. So what I would anticipate happening is that a study group would be put together of interested parties--Senator Bolz, a representative from the Humanities Council, perhaps a representative from the Secretary of State's Office, perhaps from a couple of organizations that are interested in civic education--and determine the parameters. And I think it's a very good question. Seventy-five thousand dollars is not a lot of money and I think the purpose being to be these kind of minigrants, in our parlance, which right now we have a minigrant program that grants up to \$2,000, but that's a matching situation. So I think if you want an organization that is truly grass roots, that needs to do the project, they need to do it quickly and they're not structured necessarily to be doing a lot of fund-raising, we could certainly make it say a \$5,000 grant, given the budget that they put together, or it could be more. We generally, in our grants, we give a high limit on it but they can ask below that limit. But a lot of it is really dependent on what they put in their budget. And to us, that part of it is extremely important. We feel that organizations are not going to be successful unless they can put together a cogent budget and kind of a cogent project management process with a time line, with their mission for the project and their goals. So I think all of that would be in place before there is even an announcement that the grants are available. We have a robust data and grant management system in place. We also operate a transparent and equitable grant proposal review system which operates under the principles established by open meeting law, that use both objective and subjective methodologies, and this is due in part to the fact there is usually, in our grants, not enough money to support every proposal. So it's really critical that you have an objective process, that you have a rubric that you score these organizations on, you know, how well they're meeting the goals that are set up by the program. Members of the public can listen to the review of their proposal in our system. And as I said, it operates kind of under an open meeting law system. And grant panelists are selected for their expertise and represent Nebraska's demographics. So in the case of civic engagement, clearly they would be people that understand that, the civic engagement education process, people that are knowledgeable about community development, people that are used to working with grass-roots organizations and understand their capacity and capabilities. And also I think it's important to have geographic representation. What works in Omaha may not be what works in Hastings, for example. So we establish that as a criteria for the grant reviews. We believe that the citizens of Nebraska that submit their proposals to us for consideration deserve as equitable and as transparent a process as we can make it. And applicants that are not successful in receiving funding for the first time around, generally find

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our process a good tutorial to help to write a successful proposal and they enjoy a good track record of success receiving funding later usually. And I would think this would be true with this as well. I think we're all interested in community groups becoming better at what they do. And if they can succeed at this low level of a very small grant with very simple criteria that they have to meet, that's going to make them a better grant writer so that they can then go for larger sums of money from, say, a local foundation or other granting organization, because that's really critical, I think, to the process. We will work with Humanities Nebraska and with the Secretary of State's Office and any other organizations that are recommended as far as developing the criteria for this program. So with that, I'll answer any other questions you may have. [LB356]

SENATOR STINNER: Questions? Senator Kuehn. [LB356]

SENATOR KUEHN: Thank you, Mr. Chairman. I do have a question just as I'm going through the language of the legislation. I'm confused because the bill reads. "The Nebraska Arts Council shall use the Civic Engagement Cash Fund to award a grant to the Nebraska affiliate of a grant-making body that provides financial assistance to organizations such as museums and community groups," blah, blah, blah. So that leads me to believe that you're simply a pass-through to award a grant to another organization that's going to award the grants onward. So I guess I'm confused as to who is a "Nebraska affiliate of a grant-making body," and does then the responsibility for the criteria for grant awarding and the follow-up lie with you or does it lie with who you...the grant awarding agency that you award the grant to? [LB356]

SUZANNE WISE: I think that I would probably want Senator Bolz to... [LB356]

SENATOR KUEHN: Okay. [LB356]

SUZANNE WISE: ...respond to that, since that has to do with the writing of the bill. But we can do either. And the other way that it can be done is simply identifying an organization and passing through the money to them to do the distribution part. But then in that case, we would act as the resource for how to set this up and kind of help guide that process, because in the end we're the ones that have to make a report to you. So we're the responsible party, so it's important for us to always make sure that we're dotting the i's and crossing the t's. [LB356]

SENATOR KUEHN: Okay. So then would you go through a...I mean would you submit a rules and regs process or some sort of guidelines for an RFP through DAS or you would simply administer it as you do your current appropriation and grants? [LB356]

SUZANNE WISE: The latter would be my preference. [LB356]



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SENATOR KUEHN: Okay. [LB356]

SUZANNE WISE: If you've ever looked at our legislation, it is really very broad. It doesn't even mention grants. And so over the years that we developed our process we have, if you look at our Web site, the grant programs that we have are very, very specific in terms of what is required. And so I would envision that we would either help the organization that the money is being passed through create that, or we would create that as part of this resource group that would help, and then that would be vetted. [LB356]

SENATOR STINNER: Additional questions? Do you look at this as an add-on to what you do or is this duplicating some of the things that you do? [LB356]

SUZANNE WISE: Well, it's interesting. I think some of the organizations that may be applying for the funding are certainly organizations that apply to us for funding already that often are responsible for developing community murals or a community festival. And because especially in neighborhoods of different ethnicities, the arts and community life are totally integrated, you don't necessarily see it as a separate thing. And I think in...that's certainly true often, we find, in small communities as well that are not perhaps as ethnically diverse. I mean we have to remind them, yeah, you're going to be doing a community festival and the grant review panel is going to be looking at who's interested in making sure this is successful, and they tend to forget that all they do is call to the local car dealer and they'll lend a tow truck to help haul something over for the stage. See, to them it's all integrated, but to a reviewer, unless they spell that out, they don't understand that it's a community working together. So I don't know if that answered your question, Senator. [LB356]

SENATOR STINNER: It does. It actually...that's exactly how I envision this to be utilized. As far as minigrants are concerned,... [LB356]

SUZANNE WISE: Uh-huh. [LB356]

SENATOR STINNER: ...what's your vision on...is it \$2,000 or are you going to start out with \$5,000? Are you going to have a grant process where everybody submits their grants and they wait till April 1 and then you grant them, or are you going to grant them throughout the year or until you run out of money or how is that going to work? [LB356]

SUZANNE WISE: Well, there's several ways we can do it. There's a set deadline where you have two or four set deadlines and they have to wait till that deadline. But again, I really need some education in terms of the types of organizations that are interested. And I think probably some of

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the other testifiers can certainly educate me on that. And if that's the case, that they're really, really grass roots, the migrant program is basically a six-week deadline, so you say we're going to start this on September 1. You count back exactly six weeks and that's the day the grant is due. And then that gives you plenty of time to kind of process it and do a review. If it's a small grant like that, probably we would not put that through a complete panel process because that does cost additional money. I mean we don't pay panelists. We've asked for money for panelists before but we haven't received it, but that's an aside. At any rate, that would be expensive because usually you at least pay a panelist to...their gasoline to come to a meeting and we don't have that much room in our budget. So what happens is that a review would be done by an expert outside of the agency and then they would say, through using that scoring rubric, it got an 85. They're eligible for, we would recommend, \$4,000 rather than \$5,000 for the project. And then that's what we would do. [LB356]

SENATOR STINNER: Very good. Any additional questions? Seeing none, thank you. [LB356]

SUZANNE WISE: Thank you. [LB356]

SENATOR STINNER: Any additional proponents? [LB356]

AMANDA BARKER: Good afternoon. [LB356]

SENATOR STINNER: Afternoon. [LB356]

AMANDA BARKER: (Exhibit 3) All right. My name is Amanda Barker, A-m-a-n-d-a B-a-r-k-e-r, and I am the deputy executive director and director of Civic Health Programs at Nebraskans for Civic Reform, a nonprofit located here in Lincoln. And I come today to offer my support of LB356. In 2015 our organization partnered with other notable civic engagement organizations around the state and the National Conference on Citizenship to produce what you have in front of you, the very first "Nebraska Civic Health Index," which provided an inventory of our state's civic health behaviors using data from the 2010 census. Civic health is defined, as I said, of behaviors and habitual actions that support and strengthen communities. I often explain civic health by drawing a parallel to physical health. If you make healthy eating choices, exercise regularly, visit the doctor, and sleep well, you'll likely be a physically healthy person, barring some complications. Similarly, there are four civic health indicators: social connectedness, confidence in institutions, community engagement, and political involvement. If citizens engage in activities that support these four indicators or kind of subactivities within these four indicators, their communities will thrive. All of this background on civic health ultimately illustrates its importance to Nebraska communities. Civically healthy communities have higher trust, more resilient economies, increased social capital, and greater attachment. Higher trust

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amongst community members is a precursor to partnerships, investing, hiring, innovation, and more in the economic sector just to begin with. A more resilient economy creates a more effective work force. A more effective work force leads to greater attachment to the community and that, in turn, combats any sort of brain drain that may occur across the state. So as you can see, civically healthy communities create a waterfall of good effects for communities to build upon. As the 2015 health... "Civic Health Index" showed, Nebraska ranks towards the top, kind of to answer your questions earlier, Senator Vargas. It ranks towards the top in social connectiveness and confidence in institutions where we have top ten rankings in each of those indicators. But we start to lag behind as a state in community engagement and political involvement of all shades, all nonpartisan. Community engagement is defined by the following metrics, and you can see that on page 8 if you want to follow along. It's defined by volunteering, working with neighbors, charitable giving, attending a public meeting, group membership, and holding leadership roles in an organization. LB356, in my mind, has the opportunity to directly support community engagement metrics such as these, specifically, volunteering, working with neighbors, attending public meetings, and more. The \$75,000 investment that LB356 makes in our state's civic health will easily be matched by volunteer hours alone if we think about kind of the matching portion of that. The "Civic Health Index" cites that the value of a volunteer hour in Nebraska in 2015, so we're even working on a little older data, is \$23.07, is the value of a volunteer hour. If we consider the countless time and effort spent by volunteers on these types of projects that could be granted through this fund throughout the state, it's clear that there will be a return on your investment. By providing smaller dollar funding to civic engagement projects throughout the state, we can spread greater involvement throughout communities that may not have access to this type of funding through private foundations. Some examples of how smaller amounts create this investment ripple effect come from something that... a program that we run in Nebraskans for Civic Reform, which is the Rural Civic Action Program, or RCAP. In partnership with the University of Nebraska, RCAP connects undergraduate leadership fellows and high school and middle school students in rural communities to identify community issues and address those issues through service learning projects. For instance, UNL students worked with a classroom at Syracuse, Dunbar, Avoca High School last year to create a public service announcement on the dangers of texting while driving. This awareness campaign targeted at their peers, their age cohort, began because these young citizens identified a community issue and created an action plan, created and implemented an action plan to address that issue. Syracuse students worked with local decision-making bodies to approve and distribute this PSA, and in the process developed the capacity to understand how to positively impact their communities now and in the future. The only funding for this project came through the small stipend that is associated with the RCAP Program, which was privately funded through our work. Another example comes from Weeping Water, another school participating in the RCAP Program. This semester currently 9th graders have identified a need to provide better support for children in the foster care system in their community. They are currently working through a plan to connect

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with the foster care system providers to better understand...do I need to finish up right now or one moment? [LB356]

SENATOR STINNER: You can conclude. [LB356]

AMANDA BARKER: Okay. Thank you. And whether or not this subject matter is pertaining directly to civics, it's certainly connecting them to local power structures and deepening their understanding of the impact a citizen can have. So I'll take your questions at this point. [LB356]

SENATOR STINNER: Questions? Senator Kuehn. [LB356]

SENATOR KUEHN: A few questions. [LB356]

AMANDA BARKER: Sure. [LB356]

SENATOR KUEHN: Did Nebraskans for Civic Reform play a role in the creation of this legislation or the writing of this legislation at all? [LB356]

AMANDA BARKER: Not in the writing, only in consulting with staff members about kind of the need... [LB356]

SENATOR KUEHN: Okay. [LB356]

AMANDA BARKER: ...and what we see in our community work. [LB356]

SENATOR KUEHN: And do you anticipate that you would be an applicant for these grant funds or utilize these funds? [LB356]

AMANDA BARKER: At some point in the future we may be an applicant. We may also work with community groups and encourage them to apply, for instance, neighborhood associations, that sort of thing. [LB356]

SENATOR KUEHN: Okay. And just given, because it's very odd language and it states that it would give a award, applying a singular grant to a organization. And I've been around a couple years to learn that that's usually code for an oddly specific thing which is one organization only. Do you have an idea or who would you say that a "Nebraska affiliate of a grant-making body

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that provides financial assistance to organizations," who would that be? Give me an example. [LB356]

AMANDA BARKER: Ooh. I...and maybe Suzanne would be a better...not to punt this but would be a better recipient of that question. I think in my mind it would be like Humanities Nebraska. It goes within/under their umbrella? Is that correct? So something like Humanities Nebraska or another arts council. [LB356]

SENATOR KUEHN: Okay. All right. I appreciate that. Will continue to see if we can figure out exactly what that language means. [LB356]

AMANDA BARKER: Sure. [LB356]

SENATOR KUEHN: So thank you. [LB356]

AMANDA BARKER: Thank you. [LB356]

SENATOR STINNER: Thank you. Additional questions? Seeing none, thank you. [LB356]

AMANDA BARKER: Thank you. [LB356]

SENATOR STINNER: Any additional proponents? [LB356]

TIFFANY CROUSE: Good afternoon. [LB356]

SENATOR STINNER: Good afternoon. [LB356]

TIFFANY CROUSE: I'm Tiffany Crouse, T-i-f-f-a-n-y C-r-o-u-s-e, and I'm the director of the Downtown Center Association in Hastings, Nebraska. We are a proponent for this funding because we provide activities to the community and the surrounding area and we often try to offer diverse activities to engage the community as a whole. A majority of our events are free to attend and encourage shopping, dining, and other economically driven actions. And funding that could be provided by this grant would potentially open a door for us to complete research in our communities. A lot of our downtown business owners want to have a better understanding as to how to reach various entities but also for projects that we have that are future minded. The community of Hastings lost a project that was worth \$22 million based on the lack of...some lack of trust in our community that would have impacted--yes, Senator Kuehn, you're chuckling--but

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anyway, it would have greatly impacted our community and our downtown. And because of some individuals in our community who had a lack of trust, they were able to set up a barrier for us to get that funding and created doubt in the potential investors in that private investment. And therefore, we need to know why. We need to have the ability to access instruments to measure impact and research and have a better understanding as to why we have a lack of trust in some of our members of our community, in order to be able to move forward, to be more successful. When you're in a community of 25,000 and you have a small cohort that come together but can get over 6,000 signatures to be a barrier to progress and economic development, we need to understand the motives for what that is. So this is just one of the reasons why we're in support of this bill. I can take questions. I try to be speedy. [LB356]

SENATOR STINNER: Questions? Seeing none, thank you. Any additional proponents? Good afternoon. [LB356]

CHRIS SOMMERICH: Hi. Chris Sommerich from Humanities Nebraska. That's C-h-r-i-s S-o-m-m-e-r-i-c-h. I'm executive director there. I'll just limit my testimony. I wasn't planning on testifying on this, but given the line of your questioning I just want to say we would be a willing partner. We work with the Nebraska Arts Council on many things. Civic engagement is part of our mission. We have, you know, funded periodic grants related to civic engagement. So I just want you to know that we would be happy to be part of the group the Arts Council convenes to talk about the criteria and anything else. So I'm happy to answer any questions but I just wanted to step up in case you wanted to talk about it any more now. [LB356]

SENATOR STINNER: Any questions? [LB356]

CHRIS SOMMERICH: Okay. [LB356]

SENATOR STINNER: Seeing none, thank you. [LB356]

CHRIS SOMMERICH: Thank you. [LB356]

SENATOR STINNER: Any more proponents? Seeing none, any opponents? Seeing none, anybody in the neutral capacity? Seeing none, Senator Bolz. [LB356]

SENATOR BOLZ: Thank you, Senator Stinner. And I'm going to rename my colleague, Senator Kuehn, John "Eagle-Eye" Kuehn because you caught something I hadn't caught. On page 2, line 20, the legislation references that, "The Nebraska Arts Council shall use the Civic Engagement Cash Fund to award a grant to the Nebraska affiliate of a grant-making body." That should really

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be "may" use. The intention of putting this language in is to allow for growth. So in a way that is similar to the way that the Humanities Council is nested under the Nebraska Arts Council, it may be such that this project takes off and has a life of its own and needs its own infrastructure in a new way, and I didn't want to have to reestablish the legislation if it took on new life and this committee decided to fund additional funds in the future or if it drew additional private contributions. So I hope that answers your question, but I'd be happy to answer anything further. [LB356]

SENATOR STINNER: Go ahead, Senator. [LB356]

SENATOR KUEHN: Yeah, I guess that is my question. I mean this is language which the last couple years has filtered into a number of LRs where we have this kind of oddly specific language that doesn't name a particular organization but there's only one organization in the state that is capable of doing it so we're really doing a dedicated appropriation under the guise of not doing a dedicated appropriation. So I just wanted to make sure that if there's a specific organization you have in mind that we just know who that is, or if you're... [LB356]

SENATOR BOLZ: Great. [LB356]

SENATOR KUEHN: ...who...what exactly you're thinking. So if the Humanities Council is what you're thinking, then I understand that. [LB356]

SENATOR BOLZ: No, it's a fair question and a good point. And I think at this point if the initiative were to grow and succeed, there are several possibilities. One could be that it's civic engagement Nebraska, like Humanities Nebraska. Another could be an existing organization like the Nebraska Community Foundation, for example, or a nonprofit like some of the nonprofits that were here today. So I guess in direct answer to your question, I don't have a specific entity in mind and at this point I don't even know if that entity is necessary. I think maybe a committee amendment should be changing the "shall" to a "may." [LB356]

SENATOR KUEHN: Thank you. [LB356]

SENATOR BOLZ: Yep. [LB356]

SENATOR STINNER: Additional questions? We do have an annual reporting mechanism, right, so we can see what they're granting and... [LB356]

SENATOR BOLZ: Yep. Yeah. [LB356]

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SENATOR STINNER: ...so you can check up on it later. [LB356]

SENATOR KUEHN: After the dollars are out the door. [LB356]

SENATOR BOLZ: After we establish the John Kuehn Council for Civic Engagement?  
(Laughter) [LB356]

SENATOR KUEHN: Very highly subscribed fund, I'm sure. [LB356]

SENATOR BOLZ: Thank you. [LB356]

SENATOR STINNER: (Exhibits 4, 5, and 6) I do have two letters of support: Sherry Miller, League of Women Voters of Nebraska; Julie Smith, ONE Omaha. John Gale, Nebraska Secretary of State, has a letter in the neutral capacity. And this concludes the hearing on LB356. [LB356]

(AGENCY BUDGET HEARINGS)

SENATOR STINNER: And we will then go to AM494 to LB331. [LB331]

SENATOR HILKEMANN: Let me get a little organized here just a second. [LB331]

SENATOR STINNER: (Exhibit 1) Good afternoon, Senator Hilkemann and fellow members of the Appropriations Committee. My name is John, J-o-h-n, Stinner, S-t-i-n-n-e-r. I represent District 48. AM494 is a proposed amendment to the Governor's budget bill, LB331, that manages certain aspects of funds and fund transfers among various funds. Specifically, the amendment would change the ending balance reserve requirement that the Legislature must observe when building a General Fund budget during this legislative session. The minimum reserve would be lowered to 2 percent from the present 3 percent, freeing up roughly \$85 million in General Fund during this budget cycle. This lower minimum would also apply to the Legislature in the next session, 2018, when making changes to the existing budget. A separate section of the amendment would likewise grant the same lower threshold to the Governor for any changes that he would request during 2018 Session. These changes would expire with the onset of the next full budget cycle during the 2019 Session, returning the minimum reserve back to 3 percent for the 2019-2021 biennium. In other words, we'd schedule a repayment or a sunset of the 2 percent requirement and it would go back to 3 (percent). As a matter of history and precedence, I want to go through just kind of a chronology with the committee. Changes have been made to these reserve requirements before. Section 77-2715.01 that initially applied to the State Board of Equalization, the percentage threshold was first set in 1969 at 5 percent, applied



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to the State Board of Equalization as it set tax rates at that time. In 1975 Special Session, there was a specific exception for 1976 of not less than 2 percent and not more than 3 percent; 1976, 5 percent was changed to not less than 3 percent nor more than 5...7 percent. In 1982, 3 percent was changed to a 2 percent minimum. In 1983 it was changed back to 3 percent and was applied to the Legislature, as the Board of Equalization was no longer...would no longer set tax rates. Section 81-125.01, which applies to the Governor's budget request and is the section that pertains to this now, was first enacted with a 3 percent minimum reserve in 1982. In 1983 the state experienced similar budget shortfalls and the minimum reserve was put back to 2 percent, and changed back to 3 percent in 1985. And if you remember, and some of you do and some of you probably weren't even born during the ag crisis, that was the agricultural crisis. So the Cash Reserve was moved down to accommodate a special agricultural crisis. Keep in mind all these prior actions occurred at a time when the state enacted just an annual budget and a Cash Reserve was nonexistent. Actually, they were borrowing. I think at that time they could borrow from the Universal Service Fund, which carried about \$70 million at that time. Think it's down to \$30 or \$35 million now. That provision has expired but we do have a rainy day fund. I have not handed out charts but I will now and in those charts you will see the last two years of cash flow, and it points out a high and a low--it's a candlestick chart--per month, and the current one also projects forward March to June of 2017 or the end of the biennium. You can easily see that we have only projected to go through that 2 percent reserve in April of this year and then we bounce right back. But you can see the seasonality of how the tax collections are maintained and what the cash flow looks like. So it isn't like we're going to have a cash flow problem and can't pay the bills, plus you have the rainy day fund in behind you. So if you drop below and need to borrow at any point in time, the Cash Reserve rainy day fund, which I'm projecting to be, at the end of this budget cycle, to be \$400 million. So you've got adequate cash in order to do this. What I'm asking for is budgeting flexibility. I just wanted to talk a little bit about the flexibility and some of the options. We have a lot of balls in the air this session. Obviously, Education has to come with a TEEOSA bill. We may or may not get something from Revenue in a tax package that may impact some of the things we do. We obviously have a surprise in that we just heard yesterday from Health and Human Services we got a \$10 (million), \$11 million bust that we have to figure in our budget because of the contract with the Nebraska Families Cooperative. So these things happen and they happen along the way, plus the fact that we come with a budget on a Monday and we don't get the final forecast until Wednesday. And if you paid attention to what has happened over the last nine months, we've missed projections every month. We have a pattern. So is there another forecasting downfall in this budget cycle? I have no idea. My intention is to try to put this budget on a balanced basis without using the 3...going below the 3 percent, but my objective is to have that flexibility. We could have a deficit request come in certainly next biennium that we'd have to look to either cutting or using the Cash Reserve. So that's some of the reasons why we're trying to set this floor. We want to, first of all, establish a balanced budget; second of all, establish structural integrity within it; and then try to hit a targeted reserve of \$400 million. So that's kind of the rationale for it. I do have Fiscal Office will give you some more

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detail relative to the history, but that's the history. That's the science behind what I'm trying to get done here and providing us some of the flexibility that I believe we're going to need to have. And I will tell you that I have looked back at the last two recessions that we had. You go to 2002, 2003, 2004, the dot-com bubble when we had another budget shortfall. Guess how they balanced the budget--cigarette tax, increase in revenue. We going to have a cigarette tax this time? Go back to the housing crisis. Why didn't we lower the reserve at that time? We had a crisis, right? We had \$600 million come in from the federal government. Do you think that's going to happen this time? That's my point to this whole thing. I don't know. I don't have a crystal ball. But I know I'm going to be awful tight. I know that there's a lot of unknowns. There's a lot of unknowns as relates to regulation. There's a lot of unknowns as to expenses that might pop up. There's a lot of unknowns due to forecasting. We need the flexibility within Appropriations to make the type of changes that we have to make and maybe making them on the fly and on the floor. So that's the rationale behind it. I'll open it up for questions. [LB331]

SENATOR HILKEMANN: You're up. [LB331]

SENATOR BOLZ: Okay. Well, are there any questions of the committee? Go ahead. [LB331]

SENATOR CLEMENTS: What is, roughly, the dollar amount of the 3 percent figure? [LB331]

SENATOR STINNER: The 3 percent figure is around \$270 million and that's my rounded number, so divided by 3, it's about \$90 million. I put in \$85 (million) just because I'm not sure where those expenses are going to come out. [LB331]

SENATOR CLEMENTS: All right. Thank you. [LB331]

SENATOR STINNER: Yep. Senator Hilkemann. [LB331]

SENATOR HILKEMANN: This...these numbers here, does this represent 3 percent of the total budget? [LB331]

SENATOR STINNER: That represents...that represents how much cash we've had high and low for each month, and it demonstrates you're well above that \$270 million. If you peel back the 2 percent or another \$90 (million) off of that, it would be about a \$180 (million) or something. So you can look and see. You'd be below a 2 percent. But what I'm trying to demonstrate is we're never out of cash. We can pay our bills. [LB331]

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SENATOR HILKEMANN: So this is...these numbers are up and beyond what...that 3 percent that we have to have. [LB331]

SENATOR STINNER: Yeah. We have, depending on what month you're looking at, we have seasonality. We collect taxes at certain times... [LB331]

SENATOR HILKEMANN: Yeah. [LB331]

SENATOR STINNER: ...and we pay big bills at certain times. So you've got that. You can see the seasonality. You're looking September usually is the high, April is usually the low, but you climb right out of April fairly quickly. [LB331]

SENATOR HILKEMANN: And so if we were to...if we were to...if we were at the 2 percent level now, are you saying to me that this chart would look the same? [LB331]

SENATOR STINNER: Yes, it would look the same. That's historically what the cash pattern is of the state of Nebraska, yes. [LB331]

SENATOR HILKEMANN: So if we were at the 2 percent, you're saying that the estimate for this March, the low would be \$142 million. [LB331]

SENATOR STINNER: So if we had to cut a budget at that time, we'd be below it. But we're not cutting a budget at that time. It's actually the Junes that we have to worry about. [LB331]

SENATOR HILKEMANN: Uh-huh. Okay. [LB331]

SENATOR BOLZ: Go ahead. [LB331]

SENATOR CLEMENTS: Senator Stinner, does this amendment make the 3 percent go back up or the... [LB331]

SENATOR STINNER: Embedded in the... [LB331]

SENATOR CLEMENTS: ...percent go back up to 3 percent (inaudible)? [LB331]

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SENATOR STINNER: Embedded in the amendment, this is for two years, for this biennium only. Then it goes back up. And we have historical precedence where they have pulled it down and they've actually forced it back up. So we will return to that. But I will tell you, if you look at history, the 3 percent was required when we only had annual budgets. I think it was Jerry Warner was the Appropriations Chair. He went to a biennium, which doubled the amount. Then they still stayed at 3 percent. So plenty of cash in the reserve to...working capital is what I call it and what you would call as working capital. [LB331]

SENATOR CLEMENTS: Yeah. [LB331]

SENATOR STINNER: You can't borrow so you have to keep enough cash there to run your business. That's what it's all about. [LB331]

SENATOR CLEMENTS: Okay. Thank you. [LB331]

SENATOR BOLZ: Go ahead, Senator. [LB331]

SENATOR KUEHN: So I understand what you're trying to do. My concern is I think the same one that you have which is what if this isn't...what if this extends beyond this biennium and aren't we just simply kicking at \$85 million can down the road with regard to the decisions we make now and then simply saying if this doesn't structurally turn around in two years we have to take that \$85 million hit again or we maintain the 2 percent threshold another biennium? I mean how do you address that issue? [LB331]

SENATOR STINNER: Here's what I have done. I've gone back and looked at the 2003-04, 2002, and you kind of hit bottom, similar to what we're doing right now. Then you saw an increase coming back of about...I think it was about 6 percent average increase over the next five years. The housing bubble, same thing, we've averaged about 5.5 percent increase since we came down in the trough. Now those percentages sometimes are slanted simply because you're below average and you're just coming up to average. So is there a precedent for looking at this as a short term? I'm saying, yes, and we have projections that are comparable in the next year. But the key to this thing is that I still have a \$400 million reserve. So if I'm not bottomed out and I do need to swing back up, I could take the reserve down at that time. [LB331]

SENATOR KUEHN: But... [LB331]

SENATOR STINNER: It makes the building of that reserve back to the maximum amount a whole lot easier than it would be to just keep taking it out. [LB331]

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SENATOR KUEHN: But the two situations in this century that you're referring to were both national downturns with a national recovery. This isn't a...you know, we're certainly an outlier and a lot of what we're seeing is due to local ag economy driven and part of an ag cycle that is somewhat disconnected from what the Dow is doing, disconnected from other economic development on the national scale, which is what has me concerned that making a decision with the assumption that we're somehow going to operate on historical precedent when what we're experiencing now is disconnected from those previous national historical precedent is...I don't think that's a fair apples-to-apples comparison. So I'm... [LB331]

SENATOR STINNER: I agree 100 percent. We do not have an episode that we can point to that caused this revenue shortfall to happen. I agree 100 percent. We're all pinning it on ag. I'm not 100 percent sure we don't have something structurally going on. I don't...nobody has been able to sift through all the numbers and come up and say, aha, that's the reason, other than agriculture and what's happening there. I cannot predict the future. All I can do is use the past to be a precedent maybe for what we're dealing with. If we don't cycle back up I got a \$400 million reserve that we then have to dip into again and then have to look at additional cuts, additional lapses. I can stretch it out over a period of time. This is just giving flexibility this biennium in hopes that we do cycle up. If we don't, we start to use heavier that reserve, then start to cut even more and we'll have plenty of heads up as we move ahead. Trying to predict another two years in advance, it's impossible. [LB331]

SENATOR KUEHN: And I agree, yeah. [LB331]

SENATOR STINNER: But I've hedged my bet just by virtue of the fact that I'm trying to hit a reserve balance that's fairly robust. [LB331]

SENATOR KUEHN: And I agree with you 100 percent in that it's the prediction that's the problem, which is why I'm inherently comfortable with the assumption that this is just going to have a two-year sunset. And that's my discomfort with the entire concept at this point. That may change after April, but... [LB331]

SENATOR STINNER: Well, you and I will probably run for reelection. We'll be on the Appropriations. We'll make sure it goes back up. (Laughter) But we can look back. Other Legislatures have dealt with this before and have pulled it down under extraordinary circumstances similar to the ag crisis when they didn't have a whole lot of other options. But they did raise taxes at that time too, but I didn't want to overdo that. [LB331]

SENATOR VARGAS: Thank you for bringing this. I guess I'm trying to wrap my head around it to better understand. It sounds like we know this is predicated on the idea that things...we're

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using historical data to see how things are going to get better potentially, and we're also using it to prepare for things potentially getting worse. Is that correct? [LB331]

SENATOR STINNER: I'm hedging a bet with a reserve that's fairly robust, using the projections that we have today that shows us cycling out. There is a forecast out there and it does deal with the next biennium that shows, I believe--Mike, help me out--4.7 is what the average is over the next... [LB331]

MICHAEL CALVERT: But it then cycles up. [LB331]

SENATOR STINNER: ...as it cycles up, so. [LB331]

SENATOR VARGAS: Got it. [LB331]

SENATOR STINNER: So I have some of that but do I have a crystal ball? Can I say exactly? No. I mean what's the probability, 70 percent, it will cycle back up? How's that for a probability? [LB331]

SENATOR VARGAS: Where did that number come from? [LB331]

SENATOR STINNER: I just made it up. [LB331]

SENATOR VARGAS: No. I know. I know. I'm just...I'm being a pragmatic idealist I guess in this. I think our concern... [LB331]

SENATOR STINNER: Pragmatic would be a way you could describe me. [LB331]

SENATOR VARGAS: Yeah. Yeah. I, since our returns are not coming in the way that we're hoping and as historical trends, it seems like here that our ranges (inaudible) the amount that we're having the General Fund balances decreasing and then the ranges are widening to some extent or are a little bit more unpredictable. So it does concern me. And it's helpful to hear your rationale for this, but there's still a little concern about predicting based on something that seems very erratic here. [LB331]

SENATOR STINNER: But the question you have to come back to is, why the 3 percent reserve? Why did they invent that? Well, they didn't have a rainy day fund back then. [LB331]

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SENATOR VARGAS: That's true. [LB331]

SENATOR STINNER: They could borrow in emergencies from Universal Service Fund. Okay, that's...so we have to have working capital. We can't borrow. I think we're allowed to borrow \$100,000 or something like that. So if you can't borrow, you have to have plenty of cash around to accommodate swings, not only with revenue swings but with expenses. So that was the rationale behind it and it was done on an annual basis. Now we're in a biennium. You got a rainy day fund that you can deal with. This is just a mechanism that allows us the flexibility to bring a budget in, in balance, structural balance, and an adequate amount of rainy funds. Trying to cover all the bases. And Senator Kuehn is exactly right. When we come out and we go back up to 3, we may have to borrow from the rainy day fund additional dollars, but we're going to have to also probably...that's if we don't cycle up. We'll have to reconcile it at that time. But we'll have plenty of heads up, I mean, when we go through the years. [LB331]

SENATOR VARGAS: So is the 2 percent number...what is that grounded in again? [LB331]

SENATOR STINNER: The 2 percent is just a number that has been used before. It's a number that obviously, by looking at the cash flow, has shown that we have plenty of cash around to make our bills, so we have the liquidity to survive. And then by bringing this down it releases about \$85 (million) to \$90 million of potential General Fund spending. I have no intention to spend all of it. If we go to 2.9 or 2.75, that might be an okay number if we have to. You got to remember, the timing of the budget and all the things that have to come together and all the unknowns that seem to happen in HHS mostly. [LB331]

SENATOR VARGAS: And do you think we're...you know, you brought up the 3 percent and that was grounded in a different time. Is this something we should be revisiting? [LB331]

SENATOR STINNER: Well, I...you can revisit it. I happen to like the 3 percent simply because it's big. It's a big amount of cash, but... [LB331]

SENATOR VARGAS: Okay. That's fair. Thank you very much. [LB331]

SENATOR KUEHN: And I don't know if this is more of a question or a comment, but isn't it ironic that the university is asserting they need a \$300 million cash reserve to maintain bond rating and we're talking about dropping our reserve down to \$160 million? [LB331]

SENATOR STINNER: But we have two reserve...two cash reserves, whether you call it a rainy day fund or a Cash Reserve. We have a \$400 million, if I can bring this thing in close, and then

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you have a 2 percent reserve. So you've got plenty of cash. It's all about liquidity from that aspect. If you look at the state from a liquidity aspect, we have plenty of liquidity to pay our bills. I don't think the state is going to go out and borrow a whole lot of money on a bond. So bond rating...but, you know, when somebody looks at where we're at today in the state of Nebraska with our revenue situation, they're going to want to know how we balanced the budget and what we did was to lapse a lot of reappropriations, we took and lapsed a lot of the cash out of the working capital of a lot of these funds, and we've cut. We've cut the trajectory of growth in expenditures. And those are the three things that we've relied on. Now we've got to look at the rest of the story, as how much more can we cut and still be effective? That would be one. And do you have other abilities to lapse other cash? Probably not a whole lot. [LB331]

SENATOR KUEHN: But at the same time in the '80s, when we're talking about these numbers, TEEOSA didn't exist. It wasn't a calculation. Medicaid was shared in large part at that point in time by the counties. So I mean we didn't have the entitlement situation. So, you know, our two largest General Fund appropriations were completely different at that period in the '80s. And that again is why I have some significant challenges with drawing those comparisons and why the discussion in the absence of an absolute emergency. Things are tough right now, but I don't know that we're at a point where talking about lowering our minimum reserve...I'm just not sure we're there yet. I think we have a lot of...I think we have a lot of... [LB331]

SENATOR STINNER: I'll take that as your comment. How's that? [LB331]

SENATOR KUEHN: ...a lot of levers to pull before we get there, but. [LB331]

SENATOR BOLZ: I do have one question and bear with me as I try to ask it. What do you...so the fiscal impact of taking the reserve from 3 (percent) to 2 (percent) is about \$85 million. Is that right? [LB331]

SENATOR STINNER: That's right. [LB331]

SENATOR BOLZ: And your goal in terms of the Cash Reserve would be at about \$400 million, right? [LB331]

SENATOR STINNER: That would be it, yes. [LB331]

SENATOR BOLZ: So help me understand what the policy or pragmatic difference between a 2 percent minimum reserve and a 4 percent rainy day...or and a \$400 million rainy day fund is.



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What's the difference between that and a 3 percent minimum reserve and a \$315 million rainy day fund? [LB331]

SENATOR STINNER: Because you don't need the working capital at the level of 3 percent. And why in the world would you ever penalize yourself in the situation where you don't have any revenue to go to, you have to do it with cuts? You'd like to be able to maintain a reserve...a rainy day fund that as you cycle up could be built up faster to the maximum as opposed to continuing to pare it down. Now if we go to the next biennium, then we are going to rely heavy on the rainy day fund or else you're going to have to cut a whole lot more, because we don't have cash. We don't have reappropriations. We've used those cards. Now if we come to the floor with the budget and it's in balance and we're all feeling really good, it could easily be off \$50 million, easily be off \$50 million. And this is when I walk the floors at night. Where am I going to get \$50 million on the fly? And the budget might be on Select File by that time. [LB331]

SENATOR BOLZ: Am I understanding you correctly to say that one of your goals would be that if we have a 2 percent minimum reserve we can better capture dollars in a rainy day fund? [LB331]

SENATOR STINNER: Say that again. I... [LB331]

SENATOR BOLZ: I thought that's what I heard you describing to me, that if we have a 2 percent minimum reserve dollars flow more quickly. [LB331]

SENATOR STINNER: I have more flexibility in the budgeting...ongoing budgeting process, ongoing operations of the state to allow that rainy day fund to stay at a fairly robust stage. [LB331]

SENATOR BOLZ: Are there any other questions from the committee for the introducer? Okay. Thank you, Senator Stinner. [LB331]

SENATOR STINNER: Thank you. [LB331]

SENATOR BOLZ: Do I have any proponents? Any proponents? Any opponents? [LB331]

GERRY OLIGMUELLER: (Exhibit 2) Vice Chair Bolz and members of the Appropriations Committee, for the record my name is Gerry Oligmueller. My name is spelled G-e-r-r-y O-l-i-g-m-u-e-l-l-e-r. I am the State Budget Administrator and the administrator of the Department of Administrative Services--Budget Division. I'm appearing here today in opposition to AM494 to

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LB331. AM494 proposes to amend current state law to reduce by one-third the requirement that the Legislature prepare the state budget for the upcoming 2017-19 budget biennium with not less than a 3 percent reserve in the General Fund budget. The minimum General Fund reserve requirement would be reduced from 3 percent to 2 percent. The purpose of the minimum reserve requirement is to ensure that there will be an adequate balance in the General Fund to meet the appropriations and express obligations of the state as the budget is administered. I was unable to conduct an exhaustive review, although Senator Stinner I think hit the highlights, and some of that goes back to my history at the point in time I left the employ of the Legislative Fiscal Office in 1982. So I have a little bit of that memory as well and...but I didn't get a chance to really do an exhaustive review of the history on the current reserve requirement since being noticed of the hearing for AM494. However, know that the current law has served the state well since the beginning of my tenure as State Budget Administrator in 1995 and perhaps dating back to actually the implementation of biennial budgeting in Nebraska in the mid-1980s as well. Part of that is a consequence of the fact that that calculation is done on a biennial basis as opposed to an annual basis for purposes of setting that reserve. There have been just four instances in recent history when an inadequate General Fund balance necessitated an administrative transfer from the state Cash Reserve Fund pursuant to Statute Section 84-612. These occurred near the end of FY 2002-2003, the beginning of FY 2003-2004, and in April 2004. Section 84-612 of Nebraska state law authorizes temporary transfers from the state Cash Reserve Fund to the General Fund upon certification by the Director of Administrative Services that the current cash balance in the General Fund is inadequate to meet current obligations. I say transfer in that the law includes a requirement that that transfer be reversed when there are sufficient funds available in the General Fund. The shortfall of \$95 million in actual net General Fund tax receipts from the certified FY 2015-16 forecast and the continuing shortfall in net General Fund tax receipts now forecasted for FY 2016-17 will draw the General Fund ending balance for FY 2016-17 to its lowest point in the past ten years. Our current experience does not support enactment of a General Fund budget with a lower minimum General Fund reserve requirement, especially at this time. That said, I understand the necessity of today's hearing regarding AM494 if it is to be a further consideration of this committee and the Legislature. I thank you and I'd be glad to answer any questions.

[LB331]

SENATOR BOLZ: Any questions for Mr. Oligmueller? [LB331]

GERRY OLIGMUELLER: Senator Hilkemann. [LB331]

SENATOR HILKEMANN: So as I understand this, this is basically using my checkbook at home. You're supposed to hold 3 or 4 percent, or three or four months' base cash that's always available. And so what we're doing here is we're going to put it to two months instead of three months. Is that correct? [LB331]

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GERRY OLIGMUELLER: Well,... [LB331]

SENATOR HILKEMANN: That's what you're objecting to. [LB331]

GERRY OLIGMUELLER: This...it depends on how you want to look at it, of course. State spend on...in FY '16 on a monthly basis, including transfers out, for example, to the Property Tax Credit Relief Fund, averaged about \$366 million a month. So obviously you have receipts at the same time, okay, so your outflow is counterbalanced with your anticipated receipts. So, yeah, it's intended to be your liquidity, if you will, month to month given the inconsistent nature or amount that comes in month to month in receipts versus spend. So it's your checking balance, if you will, unobligated in some respects. [LB331]

SENATOR HILKEMANN: So if I understand...so if I understand this amendment, but putting it in that way instead of state dollars, is he's saying that we've never, ever dropped down even to 2 percent or two months. And he's saying why should we keep a whole month extra there in your bank account that's doing nothing in a time...in a situation when it's... [LB331]

GERRY OLIGMUELLER: So you're going to have highs, you're going to have lows, and our current cash flow forecast into April of this year, for example, will probably take us close to \$40 (million), \$50 million unless, you know, there's anticipated...unless there's actual receipts greater than forecast and unless they're spending less than projected for the month of April. So we do hit...we can hit a period of time when the actual balance is lower than that. Now I'd say when you look at it on an historical basis, the General Fund balance has been high, right? And it fluctuates over time. And given the fact that we've had this structural imbalance in particular through '16 and '17 and we're looking at constructing a budget for '18 and '19, perhaps that doesn't achieve structural balance until the second year of the biennium, we are drawing down on our General Fund balance. We'll have our lowest ending balance probably in the last ten years or so. That will be our beginning balance for the upcoming biennium, which we need to grow to deal with cash flow in '18 and '19. Our highest outlay month is the month of December. So spending will vary month to month. School aid payments start in September, ten equal installments from that point forward, for example, the same thing with regards to community colleges. So we'll go through an extreme low, I would say probably, on the current track we're on in April. April is...happens to be the highest forecasted month for net tax receipts so you quickly gain back some of your General Fund balance. And then you have a low receipt month in July but no spending on TEEOSA and community colleges, for example, but then that starts in September. And in December you'll hit a high in terms of outlays because of the current scheduling of the transfer of the Property Tax Credit Fund. So all those things taken into consideration will cause that General Fund balance to move up and down over the period of that

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fiscal year. And so I'm not sure exact...I haven't seen the data you're looking at to actually take a look at it but... [LB331]

SENATOR HILKEMANN: You haven't seen this chart? [LB331]

GERRY OLIGMUELLER: No. [LB331]

SENATOR HILKEMANN: Okay. [LB331]

GERRY OLIGMUELLER: But... [LB331]

SENATOR HILKEMANN: Okay. I'm trying to formulate my question. Go ahead, ask someone else. [LB331]

SENATOR BOLZ: Okay. Does anyone else have a question for Gerry? [LB331]

SENATOR WATERMEIER: I apologize for missing the majority of the conversation here, Gerry. Maybe you can help me out as far as what we have in place for protections. We have a working mechanism of a Cash Reserve,... [LB331]

GERRY OLIGMUELLER: Exactly. [LB331]

SENATOR WATERMEIER: ...this mechanism of the 3 percent. We have a rainy day fund which is a mechanism that goes in place when we're above the 3 percent (inaudible) automatically gets dumped into that. What would be a normal other...I mean what would in the other world of government, and I hate to think in business because I know we need to operate different when we've got a business. But what...are we really over...being a little bit too conservative with the mechanisms that we have in place? Or do you think there's no room to wiggle in the way we operate today? Do you see? I mean I don't know how better to ask it, I guess, but it seems like we have a lot of safeguards in place to catch bad times. I mean are we being too conservative compared to other states? And I know we're better than other states, but do you have a way to judge us compared to other states? [LB331]

GERRY OLIGMUELLER: You know, it's a hard question to answer because, okay, if you want to look historically, there would be different experiences we've had with regards to when we have experienced a time, for example, of a downturn in receipts, what was the Cash Reserve Fund balance and was it adequate, you know, to rely on that to deal with the budget

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contingencies presented at the time? I think that was part of the issue going back to 2000. That 2003 period was a precipitous decline in tax receipts, Cash Reserve Fund that wasn't positioned to deal with it. And so I mean that...the answer to that question is going to, when you look historically, is going to vary dramatically based on events. Okay? Today, as I sit and talk to you and I look at projected cash flow through the end of the fiscal year, we'll hit a low point in April, you know, that would suggest that we're not too conservative with regards to the kind of planning we do as far as a minimum reserve requirement. The...I would agree with Senator Stinner the sort of escape valve on a temporary basis in any event is the Cash Reserve Fund. But the law requires repayment of a transfer from the Cash Reserve Fund as well. So it provides time, certainly, to determine what further experience we're going to have with regards to tax receipts or spending before the Legislature comes into session again. So I'm thinking about it, answering your question, from the perspective of we have to manage the budget day to day whether the Legislature is in session or not, for example. So I would hope that we are particularly conservative from a management point of view so that if we don't have the kind of confidence in a forecast or what we're experiencing with regards to a forecast, I'm in a position to continue to manage that state budget through to the point in time there might be another convening of the Legislature, for example, so. [LB331]

SENATOR WATERMEIER: Okay. I'll think about how to phrase that better. Thank you. [LB331]

SENATOR BOLZ: Thank you. Senator Hilkemann. [LB331]

SENATOR HILKEMANN: Yeah. And here's the question. I wanted to formulate this. As I was...it was explained to me when I came as a freshman senator on this is that this reserve is such that if, God forbid, everything happened and not one dime came into the State Treasury, that we would have money on hand to pay the bills, I think I was told, two months or three months. If there was not any...you know, if we didn't have any tax revenues coming in, that we would have enough money to pay the bills for at least two months. Is that correct... [LB331]

GERRY OLIGMUELLER: Well,... [LB331]

SENATOR HILKEMANN: ...if we keep it at the 3 percent? [LB331]

GERRY OLIGMUELLER: It would depend on the date that that...you experienced that event. The 3 percent is equal to \$270 million, approximately, and calculated for the biennium. And so your ability to continue from that point of that experience forward is going to be totally dependent upon what the balance is in the General Fund on that day, and it isn't necessarily \$270 million. So it depends on time of year. [LB331]

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SENATOR HILKEMANN: Yeah. Just as you have to budget at home for when you have the higher, you know, when I have to pay my federal tax or I have to pay my property tax. I have to have more money in my bank account. Isn't that correct? [LB331]

GERRY OLIGMUELLER: Correct. [LB331]

SENATOR HILKEMANN: Okay. But you can plan that out to somewhat of a reasonable degree. Am I correct? [LB331]

GERRY OLIGMUELLER: Yeah. In fact, so I'm keeping a close eye on the decision-making process the committee is going through, because what I will attempt to do is take a look at what I think that cash flow looks like based on the decisions that the committee will make and advance to the Legislature and the Legislature will ultimately make with regards to the state budget. [LB331]

SENATOR HILKEMANN: But if I understand this amendment right, what is that we...you said \$200 and...basically \$230 million? [LB331]

GERRY OLIGMUELLER: Two hundred and seventy million. [LB331]

SENATOR HILKEMANN: A year...a month. [LB331]

GERRY OLIGMUELLER: Of receipts, in effect, in excess of what's necessary to finance spending for the biennial period. [LB331]

SENATOR HILKEMANN: Okay. [LB331]

SENATOR BOLZ: Okay. [LB331]

SENATOR HILKEMANN: Senator Watermeier and I and Senator Bolz were in Chicago. What did they say, that Illinois is how many billions of dollars...they can't even pay their present checking account. So we're in...it's nice that we at least are in a position where we can pay our bills. [LB331]

SENATOR BOLZ: Really. Any further questions for Gerry? I do have one question. [LB331]

GERRY OLIGMUELLER: Okay. [LB331]

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SENATOR BOLZ: During your time...maybe more than one. During your time doing this work, have you ever been working either in Legislative Fiscal or for the administration when there was the necessity to call a special session around the budget? [LB331]

GERRY OLIGMUELLER: Yes. [LB331]

SENATOR BOLZ: Can you describe the circumstances in which that occurred? [LB331]

GERRY OLIGMUELLER: Well, in 2002-2003 it was in direct response to the dot-com induced recession, right? And in 2007, 2006 period it was a subsequent Great Recession. [LB331]

SENATOR BOLZ: And what was the motivation for the...what triggered, aside from the economic circumstances, what was the decision making? Why was the special session specifically called in those circumstances? [LB331]

GERRY OLIGMUELLER: Well, those special sessions, you know, were called to readjust the budget plan that was in existence at that point in time to account for, you know, less receipts. [LB331]

SENATOR BOLZ: Maybe I'm not asking the question very well. What triggered it? What made the decision go from not needing a special session to needing a special session? [LB331]

GERRY OLIGMUELLER: I guess it would be hard for me to answer that question without actually deferring to the decision maker at the time... [LB331]

SENATOR BOLZ: Okay. [LB331]

GERRY OLIGMUELLER: ...what prompted the need at that point in time to call a special session. [LB331]

SENATOR BOLZ: Fair enough. And when those special sessions occurred, was the 3 percent minimum reserve in place during all... [LB331]

GERRY OLIGMUELLER: Sure. [LB331]

SENATOR BOLZ: Yeah. [LB331]

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GERRY OLIGMUELLER: Yeah. [LB331]

SENATOR BOLZ: Okay. Okay. Go ahead, Senator Vargas. [LB331]

SENATOR VARGAS: Thank you very much. Is there ever...in your opinion, is there ever a need to adjust the minimum reserve down? [LB331]

GERRY OLIGMUELLER: Is there ever a need to adjust the minimum... [LB331]

SENATOR VARGAS: Is there ever a situation where you...I mean I guess I'm piggybacking off of what Senator Bolz. So the question, is there ever a situation where it would be a strategy to use? [LB331]

GERRY OLIGMUELLER: It's not one I would recommend. [LB331]

SENATOR VARGAS: Will there ever be a need to increase it? [LB331]

GERRY OLIGMUELLER: The law currently allows for it to be greater than 3 percent, so I would probably actually encourage that we consider doing that. [LB331]

SENATOR VARGAS: Thank you. [LB331]

SENATOR BOLZ: Okay. If there are no further questions, we thank you and invite up the next opponent. Do I have any further opposition? Do I have anyone in a neutral capacity? Good afternoon, Michael. [LB331]

MICHAEL CALVERT: Good afternoon, Senators. My name is Michael Calvert, M-i-c-h-a-e-l, Calvert, C-a-l-v-e-r-t. I'm the Legislative Fiscal Analyst and I'm appearing in neutral capacity. I wrote down a number of questions and some thoughts, listening to the testimony, and my hope is to help clarify a few things and also kind of establish some of the "connectiveness" between the 3 percent reserve and the Cash Reserve Fund because the interactions are very important. One of the things that Gerry said that I 100 percent agree with is, I agree, the 3 percent reserve has served the state well. There's no question about that. The way I kind of look at it and the way I have to evaluate it and monitor and collect the data on the Cash Reserve...or on the General Fund cash flow, I converted every...when you look at a dollar balance in any one year, it really doesn't tell you much unless you know something about the size of the budget, size of the revenue. So I go through a process of normalizing everything and equating it as a percentage of the budget in



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any one particular year, and then I translate that into kind of coverage, i.e., how many days cash on hand does this effectively give you. Okay? And one of the reasons I like the 3 percent reserve is in looking at the history since 1988-89 is that in effect what that has done on average, if you look at the low balance every single fiscal year since '88-89, it effectively gives you about 24 days' cash on hand. That's your low point on average. And then me, to my way of thinking and observing what has happened over the years, that gives you a pretty good threshold, okay, in terms of support of your expenditure requirements and hedges against the fluctuations that you will see in a month or over a year in terms of revenues. It gives you a great deal of security in that regard. Gerry mentioned something about the current cash flow. There is a monitoring system that's prepared by the Department of Administrative Services--Accounting. I have access to that as do a number of other individuals. And what that does is it starts out at the beginning of the fiscal year with a breakdown of literally daily balances: cash in, cash out. Schedules out expenditures, schedules out revenues, casts a balance, carry it forward, you do that for the next day. So you have literally, for every business day of the fiscal year, you have a schedule. I set up a schedule. We do comparisons to that. And one thing Gerry said was that the low point is projected in I think the first half of April this coming year, and that's fairly typical. If you look at cash flows for every fiscal year since '88-89, that's generally the case. And he pointed out that the low point is somewhere around \$40 (million) to \$50 million. So you have to understand that that balance can move around quite a bit in terms of the timing of certain events, whether they be revenue or expenditure, and what the analyst does with respect to adjusting for events that may be...that happen early or late. I watch the balance on every single day. When we started the cash flow for this month, it was up to about \$140 million. I cannot point to \$100 million worth of transactions on a day-to-day basis that have caused this to drop that far. I would think that somewhere around \$70 million but he may be right in terms of a low point. That's what I've been looking at in terms of watching the pattern for the last several months. What does that low point of a \$70 million balance in the General Fund give us with respect to the current cash flow? That roughly gives you about six to eight days of cash on hand for the General Fund. Now this sounds low, okay, but this trough is of a short duration. The charts that Senator Stinner handed out to you, the last page I believe was marked for the current fiscal year. And, Senator Vargas, you quite correctly point out, the spread, high to low, in any one month is big. There will be a shift if revenues come in pretty consistent with the revised forecast, and I will emphasize the cash flow that I'm working from and the cash flow that that chart was based off of was based off of the revised February forecast. So it's up to date with respect to that revised revenue estimate. What that...will happen, based on that cash flow, is there will be likely a rebound, because April is a big revenue month for us. It's probably around \$500 million this particular year. We'll probably rebound up to an ending balance somewhere just short of \$300 million, so there is a lot of variability. Some history with respect to General Fund balances: Our historical low, when I said I looked at all of the low balances throughout since '88-89, the low point was, as Gerry pointed out, in June of 2003. We were down to one day's cash on hand in the General Fund balance. Slightly later in the fiscal...in calendar July, it was about one day's balance and that was the low

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point for the next fiscal year. In that instance, we had \$30 million outstanding from the Cash Reserve Fund to support that balance, okay? But...and eventually it went up to \$60 million. What's interesting though is that the subsequent recession, 2010-2011, which was very, very severe, we didn't have to rely on Cash Reserve transfers and that was by operation...the 2002-2003 time period was by operation of current law and it is automatically paid back. In fact we straddled a fiscal year and we carried forward an obligation of about \$30 million that we knew we had to pay back. Balances during that time period that were paid, the General Fund paid back the balance August 18, so it's a relatively short duration. When you hit these troughs, they generally tend not to last very long. This was by operation of the original law that said this was your short-term borrowing fund. Prior to 2003, there were other transactions where we borrowed to the tune of about \$7.5 million in around July 1985. In '86 there were a series of transfers that peaked at about \$10 million, but everything was paid back within about a week or so after that and it was fully reversed. Despite that, the severity of that recession, again I will emphasize that low balance never dropped much below 12 days, and that was a very severe recession. And, Senator Bolz, you asked a question about what was the difference, the respective recessions. And I've gone through special sessions, okay, and they were driven by, you know, budget-related issues. The 2002-2003 recession was not technically really a recession. I don't think we ever had a quarter of gross domestic product go negative. That was the traditional definition the economists used to use, that gross domestic product would go negative two or three consecutive quarters. We really never hit that point. What was different about it was it was a revenue side issue where revenues declined dramatically very suddenly. We got through about January of a fiscal year thinking we were just on track as far as revenues, and then you got to March, April, and May, and it was like somebody switched the light off and revenues just started disappearing. What was different was we literally had...we had two special sessions, a couple regular sessions on budget problems, and it hit hard and it was persistent. Okay? The...and it lasted. We had low balances and this was a time period where even though we did make...have borrowings during that time period in '02 and '03 that lasted roughly about six weeks, we literally had five fiscal years, starting in '01 and going to '04-05 where the low balance was down to less than five days in every one of those fiscal years. But yet, in a very short time period that straddled fiscal years, we only had to borrow from the Cash Reserve twice for a very short period of time. But we were very glad that it was there. Whereas the 2010-2011 time period, we never had a low balance that was below 11.9 days. And what was interesting about that time period was it was very fast, it was very deep, but it didn't last long. And if you look at the fiscal years on either side of that time period, we were in excess of about 26 days' cash on hand at our low point, so the recovery was rather quick. We came into it fairly well, it happened quickly, it disappeared quickly, and then we recovered rather quickly. Okay. One of the things Gerry mentioned I think is that we've got some time we have to spend and we will have collaborated on this. We've already prepared the current revenue forecast for next year, broken it down by month. Department of Revenue has done a similar sort of thing. We're going to funnel that to Department of Administrative Services--Accounting, and then we'll have to collaborate and try

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and put together a simulated budget for the next fiscal year to try and fit this to a cash flow. And I think that's the next important step, is trying to assess where we think we're going to be cash flow wise. In my opinion, lowering the reserve to 2 percent on a short-term basis does not really represent a substantial risk in the short term. I mean I see in combination, the way the law operates with respect to the Cash Reserve Fund and the General Fund balance, that we'll have sufficient funds to pay bills on a timely basis. Other statutory structures in how the Cash Reserve Fund interacts with the General Fund is there to support, and obviously we're going to have an impact as far as the current budget process. There are decisions that have not been finalized yet with respect to what the budget is going to look like, what fund transfers we're going to use, what we're going to use for the Cash Reserve, which, by the way, those last two items in terms of fund transfers and Cash Reserve, you can use that in terms of timing to manage your General Fund balance. If you have any questions, fire away. [LB331]

SENATOR BOLZ: Questions for Michael? Go ahead, Senator Hilkemann. [LB331]

MICHAEL CALVERT: Yes, sir. [LB331]

SENATOR HILKEMANN: So you said in 2000...was it 2001 you were down to one day? [LB331]

MICHAEL CALVERT: Yes. [LB331]

SENATOR HILKEMANN: And that's when we had the 3 percent in place. [LB331]

MICHAEL CALVERT: Yeah. Generally, and I don't have the specifics in front of me, but generally when you come into those kinds of cycles you started out with a budget that was predicated on a 3 percent reserve. Okay? [LB331]

SENATOR HILKEMANN: Uh-huh. [LB331]

MICHAEL CALVERT: There was a time in the '02-03 time period, and I can't remember exactly when it was, but we were clearly coming out of the downfall. The revenues were starting to rematerialize. And the committee made a decision that we were going to get as close as we could moving towards a 3 percent reserve, but if we fell short we were going to be okay because we thought we were going to come out of it, and we did. But generally, you should expect that most of these times we have...we always tried to get back to that point of building a 3 percent reserve. [LB331]

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SENATOR HILKEMANN: Now you said that the average that you've seen over the years that you've been here is that we're down to about 24 days. So that's kind of... [LB331]

MICHAEL CALVERT: On average, yes. [LB331]

SENATOR HILKEMANN: Okay. So the logic in me says if we were to drop this down to 2 (percent) that then we would then be at 16 days. Is that...that would be... [LB331]

MICHAEL CALVERT: On average. [LB331]

SENATOR HILKEMANN: ...if we continued this for a long period of time. Would that be a logical way to...? [LB331]

MICHAEL CALVERT: Well, that's a logical way to describe the consequences of what we're talking about in terms of just the mechanics of what we're doing. [LB331]

SENATOR HILKEMANN: Right. [LB331]

MICHAEL CALVERT: Absolutely. [LB331]

SENATOR HILKEMANN: Right. So if we went to the 2 percent rather than keeping it. [LB331]

MICHAEL CALVERT: Uh-huh. But, you know, on the high side too, I mean the minimum days cash on hand has been up to about 73 days. This was quite some time ago in '89-90, but we have quite a few days here that are in the 30s. And again, this is at a minimum, so that's roughly 30 days or more coverage. [LB331]

SENATOR HILKEMANN: Yeah. [LB331]

MICHAEL CALVERT: It's highly variable, no question. [LB331]

SENATOR HILKEMANN: And so it would also stand logically, from what you said, is that if we drop this down a third that we would have instances that we would not stay at the one day. We would actually drop down below that balance we had. There would be certainly greater potential of that. [LB331]

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MICHAEL CALVERT: There might be a higher risk but then, on the other hand, you have a backstop of about a \$600-plus million Cash Reserve Fund that automatically... [LB331]

SENATOR HILKEMANN: Right. [LB331]

MICHAEL CALVERT: ...would cover those shortages. And I think the key for me and others will be an assessment of the next fiscal year and trying to guess how cash flow is going to look, and that's going to take us some time. [LB331]

SENATOR HILKEMANN: So when I think about it (inaudible), the logic in me says if we have a \$400 million cash balance, even though we may drop down below that on, you know, the possibility, you said I think you...I missed there for just a second but you had...you talked about three or four times when it ever got down even to the one day. So the logic tells me we should, even if that happened, if we went to the...dropped it to 2 percent, we should have the cash balance...or the Cash Reserve Fund should always be able to take care of it. [LB331]

MICHAEL CALVERT: In combination, yes. I mean you've got that in the hat. Now if you go back in some of the prior years, I think I've got that here, for example, '01-02, 2000-2001, we were running a Cash Reserve Fund, the rainy day fund, that was substantially lower than what we've got now. [LB331]

SENATOR HILKEMANN: Right. Right. [LB331]

MICHAEL CALVERT: I mean...and I remember this distinctly and I mentioned we had five consecutive fiscal years where our coverage on the General Fund was less than five days. Well, the rainy day fund balance was also exceptionally low and my recollection is that was kind of white-knuckle time for a while. [LB331]

SENATOR HILKEMANN: What kind of interest do we receive on that, on that reserve that we have? [LB331]

MICHAEL CALVERT: Oh, the interest income for the Operating Investment Pool is about 2 percent right now. Everything on the Cash Reserve Fund by law goes to the General Fund, so that way any transfers back and forth, no matter where the money is, interest income accrues to the General Fund. It does not accrue to the Cash Reserve Fund. [LB331]

SENATOR HILKEMANN: And the rainy day fund, how is that invested? [LB331]

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MICHAEL CALVERT: Well, it's part of the Operating Investment Pool so basically what we're talking about are government debt instruments and corporate bonds, investment grade bonds is I think the standard for that pool. There's also some short-term stuff because there's a lot of churning in terms of the cash requirements. The General Fund is not separately invested. There is a pool of funds that is called the Operating Investment Pool,... [LB331]

SENATOR HILKEMANN: Right. [LB331]

MICHAEL CALVERT: ...and in the aggregate it generates about 2 percent right now. [LB331]

SENATOR HILKEMANN: That's this Cash Reserve Fund plus...and the rainy day fund about the same. [LB331]

MICHAEL CALVERT: The rainy day fund and the General Fund, and all interest is accrued to the General Fund and that's part of our revenue forecasting that we do every time we do a revenue forecast with the board. [LB331]

SENATOR HILKEMANN: Okay. Thank you. [LB331]

MICHAEL CALVERT: So we capture that. [LB331]

SENATOR BOLZ: Any additional questions for Michael Calvert? I just have a point I wanted clarification on. [LB331]

MICHAEL CALVERT: Sure. [LB331]

SENATOR BOLZ: Did I hear you say that during your time in doing this work there have been times when we've had to borrow from the Cash Reserve? [LB331]

MICHAEL CALVERT: Yes. There was...in the...I pointed out some time period, actually it was '85-86. [LB331]

SENATOR BOLZ: And actually...and the question that I wanted to ask is that didn't automatically trigger a special session. It didn't... [LB331]

MICHAEL CALVERT: No. [LB331]

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SENATOR BOLZ: ...necessarily trigger a special session. [LB331]

MICHAEL CALVERT: No. [LB331]

SENATOR BOLZ: It was something you worked through. And the thing that might trigger a special session at least in your experience were hard and persistent declines. [LB331]

MICHAEL CALVERT: Yeah. I mean it's been some event that triggered significant declines in revenue collections in comparison to forecasts. It became evident that things were getting out of balance and then the determination was made somewhere, either the Governor or actually the Tax Rate Review Committee once or twice petitioned the Governor to call a special session. But everybody was on the same page. But, yeah, it's the imbalance between revenue and expenditures almost...in almost every case. [LB331]

SENATOR BOLZ: Good. Thank you. Any last questions for Michael? Thank you. [LB331]

MICHAEL CALVERT: Thank you. [LB331]

SENATOR BOLZ: Do I have any additional neutral testifiers? Anyone else in the neutral capacity? Seeing none, welcome back, Senator Stinner. [LB331]

SENATOR STINNER: Thank you. A couple comments that I need to make. One is the last I checked I was a fiscal conservative, but I'm not going to run the state into bankruptcy by doing this. I can assure you that. The second thing, and I think may be concerns either on the committee or certainly with the Governor and administration is we're going to use this to balance the budget. That's not my intention. But I will tell you this, that we're pretty tight. We don't have a whole lot of rabbits to pull out of the hat. So if we get down and we get a Forecasting Board of \$50 million down, we're going to be really, really scrambling. The next thing is I think don't get confused about things. I'm going to try to separate this for you. The 3 percent is a number that past Legislatures said this is how much cash, when you put your budget together as a predictive tool, the 3 percent, this is how much we believe you need to have in cash in order to pay your bills. Okay? That was made up before we had a rainy day fund. That probably was gold and if indeed you want to keep all the money in the checking account that you need that's probably a good one. And I'd probably support it except for times like this. Now we're trying to hit several things. We're trying to get structural balance. What's structural balance? That's receipts versus expenditures, and we haven't hit it. That's why you see the cash continuing to go down. So we have to go, we have to find structural balance, right? We find structural balance and maybe we cycle back out, you don't have a cash flow problem. We don't have a cash problem because you

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have a checking account with an adequate amount of money in it, and you got a savings account with \$400 million in it that you can borrow. So as far as paying our bills, that's off the table. As far as a predictive tool, do you want to stay to that level of 3 percent and do we want to have \$50 million of cuts in our pocket that we can throw out on the legislative floor and get it passed with the budget, or do you want to have a little bit of flexibility? And that's what this tool is about, is giving the flexibility that I believe this committee needs to have, that the Legislature needs to have. And I still believe that we're going to cycle up out of this slump that we're in and it's a revenue slump because nobody has declared a recession. We'll just call it a revenue slump. That's what...what I was trying to do and what Mike Calvert was trying to do with those charts is to show you not only are we going down kind of from a structural, it does show that, but you're not out of cash. And when you're not out of cash, you can pay the bills. And I think the low point Gerry was talking about \$40 (million), \$50 million, you still got money in your cash...in your checking account. Do you understand that? You're not "ODing." [LB331]

SENATOR HILKEMANN: Right. [LB331]

SENATOR STINNER: Okay? The protection that you have is a \$400 million savings account. Is that \$400 (million)? Could we go to \$350 (million) instead of...okay, we'll keep 3 percent cash in and we'll go \$350 (million) or \$300 (million) in the cash...the rainy day fund. Are we at the bottom? I don't know that. But if I have \$400 (million) there, first of all I can build back to the maximum of 16 percent is what it is and that gives you two months in reserve in cash. That's what that was about. And I think, Kate, you were saying 16.5 was one of the associations' number. You know, that's something that we need to have a debate on in this committee is what number is it? But when we start to use the rainy day fund exclusively, it's...I think it's a bad idea when we have this available, just from a flexibility standpoint. So you're not going to be out of cash. You're going to be able to do that. This gives you flexibility for the unknowns that we may have to confront. That's my position. So thank you. [LB331]

SENATOR BOLZ: Do we have any final questions for the Chairman? Looks like you're off the hook. [LB331]

SENATOR STINNER: Okay. Thank you. [LB331]

SENATOR BOLZ: I think that ends the hearing on AM494 to LB331, and I think that ends our committee hearing for the day. [LB331]