

Transcript Prepared By the Clerk of the Legislature
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Nebraska Retirement Systems Committee
February 14, 2018

[LB548]

The Committee on Nebraska Retirement Systems met at noon on Wednesday, February 14, 2018, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on AM1529 and AM1758 to LB548. Senators present: Mark Kolterman, Chairperson; Brett Lindstrom, Vice Chairperson; Kate Bolz; Mike Groene; Rick Kolowski; and John Stinner. Senators absent: None.

SENATOR KOLTERMAN: Welcome to the Nebraska Retirement Systems Committee hearing. My name is Senator Mark Kolterman; I'm from Seward, and represent District 24. Our committee members are from my right...

SENATOR BOLZ: Senator Kate Bolz, District 29.

SENATOR KOLOWSKI: Rick Kolowski, District 31.

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

SENATOR LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

SENATOR KOLTERMAN: And Senator Mike Groene from North Platte, District 42, will be here, at least he indicated he would. And our staff consists of my committee counsel, Kate Allen, to my immediate left; Katie Quintero to my immediate right. And we have Bailey today as our clerk (sic-page). We're here today for hearings on AM1529 to LB548 and AM1758 to LB548. The committee will take up these bills in the order that they're posted. Our hearing today is your public part of the legislative process. This is your opportunity to express your position on the proposed legislation before us today. As I indicated, the committee members will come and go...hopefully they'll come, because they have something else on their plate, probably. But anyway, to better facilitate today's proceedings, I ask you to abide by the following procedures. Please silence or turn off your cell phone. Those wishing to attend should come to the front of the room and be ready to testify as soon as the previous person finishes. We will start with proponents, then opponent, and then finally neutral position. We do not use the clock in this room. If I feel like it's going too long, I might say--wrap it up; but we have not had that problem. Please complete a blue sign-in sheet so it's ready to hand to the clerk before you testify. Please state your name. Spell your name before you testify. Keep the testimony concise. Try not to repeat what someone else has covered. If you have handouts to submit, please submit at least eight copies. If you don't have eight copies, the page will get them made for you. And if you choose not to testify, you're also welcome to utilize the white sign-in sheets at each entrance.

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You may leave your name and other pertinent information and they will become exhibits in the permanent record at the end of today's hearing. With that we're going to start out with the public hearing on AM1529, Senator Lindstrom. When that's complete, we'll move into the other hearing and Senator Lindstrom will take over as Vice Chair to run the hearing. Go ahead and open, Senator. [LB548]

SENATOR LINDSTROM: Thank you, Chairman Kolterman and members of the Retirement Committee. Good afternoon. As you all know, I've been working with the Omaha Public School District over the last 18 months to attempt to fully assess the OSERS pension unfunded liability and to determine the best method to address the unfunded liability. I believe this issue is a key concern for taxpayers in my district and throughout the city of Omaha. If we do not solve this problem now, we will make the problem worse and ultimately cost my constituents and the Omaha taxpayers more money. I believe my amendment provides a sensible and fiscally responsible solution for OPS to restructure existing debt into a more manageable and affordable payment method. This amendment would save taxpayers in the millions of dollars over the life of the bonds. As OPS will explain in more detail behind me, we are unable to determine the exact savings based on the actuary report available to us today since the likely bond amount will change. However, we will know that there will be savings for taxpayers and that is the most important piece of this amendment. Allowing the district to levy pension obligation bonds will essentially allow the district to lock in where interest rates are now. Because the ongoing trend is that the fed will increase interest rates potentially two to three times this year alone and will most likely continue to increase rates over the next several years. This allows the district to have a stable payment every year that they can budget for rather than the current ARC payment, or the actuarially required contribution, that adjusts year over year. We have received feedback with regard to repurposing the early leave incentive levy; and based on the conversations, we feel that removing that portion from the amendment will clarify the intent of keeping the bill under the \$1.05 lid and will not go above the stated tax authority that taxpayers expect us to stay under. There will be several testifiers behind me with Omaha Public Schools, with more details about the amendment, the Cavanaugh Macdonald report, and also information about how OPS plans to manage their internal budget to pay for the OSERS unfunded liability. And with that I'll be happy to take any questions you may have. [LB548]

SENATOR KOLTERMAN: Are there any questions? You're going to stay for the close?
[LB548]

SENATOR LINDSTROM: Yeah, I'm going to stay for the close. [LB548]

SENATOR KOLTERMAN: Thank you. [LB548]

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SENATOR LINDSTROM: Thank you, Chairman. [LB548]

SENATOR KOLTERMAN: First testifier in support. Welcome. [LB548]

LOU ANN GODING: Good afternoon. Senator Kolterman and members of the Retirement Committee, my name is Lou Ann Goding, G-o-d-i-n-g. I'm a member of the Omaha Public Schools and I'm here to testify in support of AM1529 to LB548. Shortly after I was first elected to the Omaha school board in May of 2013, I was appointed to the board as a member...I was appointed by the board as a member of the OSERS board of trustees. I served in that role for three years. I have both the perspective of a OPS board member and an OSERS trustee. Over the past several years, I, along with other board members, became concerned with the financial position of OSERS. We began looking at ways to correct a serious situation. We worked with the Legislature leading up to and during the 2016 legislative session. Those efforts resulted in a passage by the Legislature of LB447 which transferred investment authority over OSERS assets to the Nebraska Investment Council. We have been very pleased with the investment returns generated under state management. While those actions have stabilized investment of OSERS funds, there is still very difficult work to do. OSERS is significantly underfunded and OPS is trying to address how to handle that long-term liability. AM1529 is our next step in bringing long-term stability to OSERS. Currently, OSERS has an unfunded liability which will require OPS to make additional contributions of \$882.4 million over the next 30 years. In 2017, OPS made an additional contribution over and above our 101 percent match of employee contributions of \$12.8 million. If no change is made, OPS will face increasing ARCs projected at \$18.7 million in 2018, \$21.3 million in 2019, \$23.5 million in 2020. These ARCs will continue to increase peaking at \$45.4 million by 2041. If I may digress for a moment, I need you to know that the OPS board understands that the unfunded liability is our obligation. We understand that these ARCs must be paid and they will be paid. Marque Snow, president of the board of...the Omaha Public School Board will testify after me and describe to you the process of cuts we are making to be certain that the ARC can be paid. At the core of AM1529 is our request that the Legislature authorize OPS to issue pension obligation bonds to create an immediate significant investment in OSERS. There are several reasons why we seek this authority. As I have noted, the ARCs are difficult to predict, they're volatile and very difficult for which to budget. A bond payment would be a stable and budgetable, although still very expensive. The assumed rate of return within the OSERS plan is 7.5 percent. We have been told that we can likely achieve an interest rate on bonds between 4.5 percent and 5 percent. We believe that using lower cost dollars is a more efficient way for the use of our taxpayer money. The Nebraska Investment Council historically has had returns that exceed that bond interest rate, so again, OPS taxpayer dollars would be more efficiently used. We also believe that this should be below the levy with no tax increase to the taxpayer. AM1529 allows bonds to be issued without taking it to a vote. As I just mentioned, we are not requesting additional dollars from taxpayers as would typically be done in a normal bond situation. The ARC payments, when made, would be expenses to our general

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fund. Bond payments, when made, would also be expenses to our general fund. In either case, the dollars would be subject to the levy lid meaning that they would be paid for through budget cuts rather than through additional revenue. This would, basically, be a restructuring of long-term debt. The long-term obligation, whether in the form of unfunded liability or in the form of bond obligation, is a demand on our general fund. There are other testifiers who will follow me that will talk about other pieces of the amendment. However, what I've described is at the amendment's core and we wanted to discuss that aside from other details in the amendment. In conclusion, I would reiterate that we know we have to pay significant dollars to address the unfunded liability. What we are asking in AM1529 is authority to do so in a manner which is more cost efficient to our taxpayers. I would be happy to answer any questions you might have. [LB548]

SENATOR KOLTERMAN: Thank you. Questions? [LB548]

SENATOR KOLOWSKI: I may. [LB548]

SENATOR KOLTERMAN: Senator Kolowski. [LB548]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Ms. Goding, thank you very much for your presentation. Your district is looking at a combination of going to the public in the near future with additional growth as you're seeing your district grow, and refurbishing schools, adding of new schools. It gets to be a lot when you're doing all that. Your plan, as you've outlined that, would fit within all the categories of effectiveness and efficiency, that you're hoping to gain by your proposal of what you've presented today? [LB548]

LOU ANN GODING: Yes. We currently do have bond debt and we would...we're going out to ask the taxpayers for more bond debt, which is above the \$1.05 levy. That is separate because it's paid for in a separate levy. The current unfunded liability sits on our books as a liability as it is. And it's been growing. The sooner we can get an infusion of cash in, the better off we believe it is for the taxpayer in savings by reducing that debt. So it's a restructuring of debt which we believe will bring about savings to the taxpayer under the levy. [LB548]

SENATOR KOLOWSKI: Okay. Thank you. I'm sure your board has had that very deep discussion on all this, just wanted to get that on the record as well. [LB548]

LOU ANN GODING: Yes. [LB548]

SENATOR KOLTERMAN: Additional questions? Senator Stinner. [LB548]

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SENATOR STINNER: I'm a little confused, and you might be able to explain a few things to me. We have an unfunded liability of \$712 million, thereabouts. [LB548]

LOU ANN GODING: Right. [LB548]

SENATOR STINNER: It will take you how many dollars...and it looks like the schedule is \$15.5 million, \$19 (million), \$21 (million), \$24 (million), \$26 (million), so on and so forth, of additional contributions over and above what you're doing today. [LB548]

LOU ANN GODING: Correct. [LB548]

SENATOR STINNER: And so the \$219 (million) would eliminate these dollars? Would it reduce these dollars? And how much would they reduce the dollars by? [LB548]

LOU ANN GODING: That's a great question. So they would reduce the dollars...as I just mentioned, those dollars add up to \$882 million of future ARC payments, if that's all we do. What we don't know is exactly what the dollar amount is we need for infusion. We've looked at somewhere between \$220 million, roughly, to \$250 million. If that's infused up front, we'd like the actuary to run that over the 30-year period. The dollar amount we believe that we could handle and see what the savings is. We know just looking at some rough estimates, we would save millions of dollars for the taxpayer because we're putting the money in up front allowing it to grow immediately, that differential there, that arbitrage between 7.5 and 5 percent. [LB548]

SENATOR STINNER: That's kind of what I'm trying to get to. Okay, we have now debt that we have to pay, formalized debt at \$219 (million) and it's going to cost you X amount per month per year. And then the pension will cost you X amount, those combined compared to this schedule, how much in savings is there? And that's what I'm trying to get to. [LB548]

LOU ANN GODING: We would like to ask the actuary to go back and do a little bit more work and we will get you that information. [LB548]

SENATOR STINNER: That's what I need. [LB548]

LOU ANN GODING: Yep, that's what we'll do. [LB548]

SENATOR STINNER: Thank you. [LB548]

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SENATOR KOLTERMAN: Additional questions? I have a few questions for you. [LB548]

LOU ANN GODING: Okay. [LB548]

SENATOR KOLTERMAN: Thank you for coming, again, today. Would you briefly describe how your board has made the public aware of the extent of the problems that you've got with the pension plan? You talk about \$882 million of ARCs that we all know about, we all understand that. And I have a little bit of an advantage over most the people out there because we've been working closely together. [LB548]

LOU ANN GODING: Right. [LB548]

SENATOR KOLTERMAN: But talk about how you communicated all these concerns to your constituents, as well as I'd like to know what your total long-term debt might be, including the bond issue that you had a few years ago, if the general obligation bonds come about, or pension obligation bonds, and then the \$410 million that you're going now for, talk about a little bit of that so that the committee understand where we're at. [LB548]

LOU ANN GODING: Okay. So let me see if I get it all. And Mr. Snow will speak a little bit more to the budget process, but we've certainly been...we've talked about it at our board meetings, especially over the last two months. In December, we spent quite a bit of time talking about it. We've talked about in January. We're communicating that through a number of different ways--district advisory committee meetings, our principals meetings. We've created a budget advisory committee meeting. So those are all things that we've done to inform the public. I was with a group of parents last night sharing the story, so we're continuing to communicate that out there and help them to understand the challenges that the district is facing because of the unfunded liability. To your question on the bonds, and I think you had asked me the other day, we have currently...or at the end of this fiscal year, after we've made our principle payment, we'll be sitting at \$608 million in bond indebtedness that is outside the levy of \$1.05 and that is being paid for by the taxpayer. And we are currently looking to go out for another \$410 million of bond. We have met with our individuals who are our consultants on that; they don't see any issue with that particular component at all. So that's outside the levy limit. This particular debt that we have of the unfunded liability, as you all may be aware, we're on the accrual basis, it's on our balance sheet, unlike any other school district in the state, it's already there as debt. So our bond folks see the debt of \$766 million or \$700 million every time they look at our financial statements because it's in our balance sheet. This is simply a restructuring of that by going out, getting the infusion up front, and cutting the cost, that interest payment and that principle payment will be handled under the \$1.05. And we believe that over time, and as I mentioned to Senator Stinner, we're going to ask for a little bit more detailed information, but based on what

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we've seen, we believe that will bring down that total indebtedness that is currently on the district books. So it's already there and it's separate from that levy that's outside the \$1.05. Is that helpful? [LB548]

SENATOR KOLTERMAN: That's helpful. So I'm going to continue on here. [LB548]

LOU ANN GODING: Yep, that's fine. [LB548]

SENATOR KOLTERMAN: So if you go out for pension obligation bonds and you do that as a school board, do you know exactly how much you're going to get or ask for, and you know what kind of interest rates you're going to be looking at as you have to pay that back? [LB548]

LOU ANN GODING: So the interest rate question I can answer. We've checked with our consultants on that and they believe it's between 4.5 and 5 percent, depending, of course, on the world around us, right, and what happens with interest rates this year. The amount, as I mentioned to Senator Stinner, we want to work with the actuary a little bit more to nail that number down. So we're not really sure. We're looking at somewhere between \$220 million and \$250 million. [LB548]

SENATOR KOLTERMAN: Okay. Would that...just out of curiosity, and you're looking at that to eliminate the ARCs...future ARCs? [LB548]

LOU ANN GODING: We're looking at that...a couple of things will happen. We'll infuse the money up front, so we'd eliminate ARCs for a period time. And we are hopeful that with the process we use in our budgeting and the changes we will make in the district, that future unfunded liability will be reduced through the budgeting changes we make, and therefore whether eliminating or significantly reducing the ARC. [LB548]

SENATOR KOLTERMAN: Okay. Do you feel comfortable talking about the Cavanaugh Macdonald report that we've received and you've received, or would you rather have me ask them directly? [LB548]

LOU ANN GODING: So...I'm comfortable with part of it, so let me...go ahead and ask me and I'll see what I can answer. [LB548]

SENATOR KOLTERMAN: Okay. So as I look at their report, and for the public and for the record, the Omaha Public Schools and OSERS have been working with my committee legal counsel and myself, quite extensively, as well as Senator Lindstrom on how do we do this? How

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do we restructure this debt so it is affordable for everyone? So initially we were told that you might go out for \$219 million. [LB548]

LOU ANN GODING: Correct. [LB548]

SENATOR KOLTERMAN: To eliminate the bulk of the ARCs, and so Cavanaugh Macdonald worked on that and they sent us an evaluation report, and we've got several exhibits, and I think I've given that to everybody. Exhibit A1 is using...it's an open 30-year amortization period and the initial \$219 million, on top of the \$12.8 million that was paid last year, would actually buy you four years. In the fifth year, there's still an additional ARC of \$6.7(million), it goes to \$7(million), 7.2(million), 7.4(million), over a 10-year period I think it drops back to \$3.5 million. All total, we're looking at about \$284.3 million. The other way we looked at it was using the annual valuation...funding policy using an annual valuation report which just says that over that same 30-year period we'd be looking at \$698 million of additional monies. Is that what you're trying to accomplish here? [LB548]

LOU ANN GODING: So if you looked at the \$698 (million), that one...you can compare that against \$882 (million) that was projected. So that infusion of capital is very helpful upfront. And we believe that future unfunded liability will come down through the budget changes that will be necessary to make those principle and interest payments. [LB548]

SENATOR KOLTERMAN: The point I'm trying to get at is...it is very helpful up front, but we're talking about \$219 million and it's really only helpful in either case for about four years because then you still have an obligation for ARCs based on the actuarial study that was done...was given to us. [LB548]

LOU ANN GODING: But those ARC numbers come down significantly. Significantly. [LB548]

SENATOR KOLTERMAN: Well, yes and no. Anyway...you've also indicated you plan on doing all this inside the budget of \$1.05. [LB548]

LOU ANN GODING: Yes. [LB548]

SENATOR KOLTERMAN: How...can you talk a little about that. How are you going to get to that? [LB548]

LOU ANN GODING: Mr. Snow is going to come after me and he will speak to that. [LB548]

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SENATOR KOLTERMAN: Okay. Okay. I don't have any questions. Anybody else? Thank you very much. [LB548]

LOU ANN GODING: Thank you so much. [LB548]

MARQUE SNOW: Good afternoon. Well, it's my first hearing ever, so please take it easy on me. (Laughter) [LB548]

SENATOR KOLTERMAN: We will. Would you state your name and spell your name for the record, please. [LB548]

MARQUE SNOW: Yes, sir. My name is Marque Snow, M-a-r-q-u-e S-n-o-w. Mr. Chairman, members of the committee, my name is Marque Snow. I'm the president of the Omaha Public School Board of Education. Over the past two years, the board of education has worked closely with Senator Kolterman, Senator Lindstrom, and with this committee to address the very serious issues of the funding of the Omaha School Employees Retirement System. Our collaboration with this committee began in its earnest with Senator Nordquist to achieve the committee's expressed goal of harmonizing OSERS and NPERS systems. We continue to share that goal and we very much appreciate the opportunity to work together. The funding status of OSERS has been an issues for my entire tenure on the OPS School Board. I'm a former OSERS trustee and I understand the difficulties that we are facing today. I want to emphasize to the committee, to the trustees, and most importantly to the men and women who are part of OSERS that the board of education remains unequivocally committed to doing whatever necessary to ensure the long-term sustainability and stability of the retirement system. With that in mind, I'm here to share with you that our board unanimously voted in support of AM1529. Some of you watched our board and would call that a miraculous achievement. But I think our united front speaks to the level of seriousness which we take our responsibility in this regard. As board members elected by the people, my colleagues and I are responsible to the taxpayers for the financial management of their resources. As you've already heard today, under the current law, our taxpayers will be asked to contribute approximately \$884 million over the next 30 years in addition to the statutory contribution rate of 101 percent employee contributions. When we became aware of the magnitude of this contribution, we began to explore ways we could manage it while still performing the task which we were elected to do--educating more than 52,000 students. Our solution was to propose a large lump sum of contribution to the system which now appears to be somewhere between \$219 million and \$252 million. Obviously, we don't have that kind of money available to us. So we're posing an issuance of bonds. While I can't say I understand the technical aspects relating to the bonds, I understand a couple of important aspects. First, the cost to borrow money in today's market is relatively low, between 4 and 5 percent. Given the assumed rate of return of 7.5 percent, Omaha taxpayers will benefit immediately. Second, it appears to me

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that AM1529 has the potential to save the taxpayers of the Omaha Public Schools a significant amount of money over the next 30 years when you compare it to the projected annual ARC payments because we're able to make a large contribution into the system which reduces the unfunded liability piece. Those things make sense to me. And for those reasons I'm enthusiastic to support it. Do I wish we had to go down this route? Absolutely not. I would have rather had a fully funded pension plan; but it isn't and our job is to try to find the best solutions possible for our students, for our employees, and for our retirees, and for our taxpayers. I'm very proud of the fact that AM1529 is proposing to pay for the bonds from within our current levy, \$1.05 levy. We hear the message from our taxpayers in Omaha and from you here in Lincoln that you expect us to live within our means. And I understand that. So whether it's a bond payment or an ARC payment, we will find a way to pay for it from within our general fund. We've already begun the process of identifying areas where we can make cuts from as far away from the classroom as possible. We've engaged our stakeholders from the Omaha Education Association to our administrators to our parents to our taxpayers by performing a budget advisory committee which has been tasked to helping us identify \$16 million in cuts that we'll need to make to cover this year's ARC payment. The committee met on January 18, and will meet again tomorrow. The committee will work with the board every year ongoing...sorry, the committee will work with the board every year going forward so we can continue to have as much community buy-in as possible to the cuts we need to make. In addition, just last night I attended the District Citizen Advisory Committee. The committee is made up of parent representative from every school in Omaha Public Schools and the topic of that discussion was budget cuts. Just like each of you, my colleagues and I took an oath to uphold the law and we were sworn in. The OPS board will follow the law. As it relates to OSERS, we have made every single payment to the Legislature ever required of us. We will continue to do so. If you do not make a single change to the law, OPS will make its ARC payment this fall. We will do so next year and the year after. It won't be easy, but we will do it. Thank you. [LB548]

SENATOR KOLTERMAN: Thank you, Mr. Snow. Are there questions? Senator Stinner.
[LB548]

SENATOR STINNER: What is the percentage of your total budget is the \$16 million? Is it 2 percent? Is it 3 percent? What does that mean? [LB548]

MARQUE SNOW: I will have... [LB548]

SENATOR STINNER: You're saying \$16 million you've cut, okay, or you're proceeding to try to discover the \$16 million that you need to cut from your budget, what is that as a percentage of your total budget? [LB548]

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MARQUE SNOW: I believe that's 3...I'm not completely accurate on it, but I can have David Kramer get it to you. [LB548]

SENATOR STINNER: Okay. [LB548]

MARQUE SNOW: Two percent. [LB548]

SENATOR KOLTERMAN: Senator Bolz, you had a question? [LB548]

SENATOR BOLZ: Thanks for being here, Mr. Snow. I think I'm catching up a little bit in terms of what I'm hearing this afternoon. When I first reviewed this information, I understood that there was some discussion about using the existing 2 cents available related to the volunteer separation agreements, is that correct? The previous versions of this discussion included... [LB548]

MARQUE SNOW: Yes, but that's not what we're... [LB548]

SENATOR BOLZ: Right. So the unanimous support is for AM1529 as presented to us, not using the 2 percent and staying under the levy. [LB548]

MARQUE SNOW: Correct. [LB548]

SENATOR BOLZ: That's your unanimous vote? [LB548]

MARQUE SNOW: Yes, ma'am. [LB548]

SENATOR BOLZ: I think the question I'm trying to get to is I find it challenging to be on this committee and having our responsibility not just to the retirement plans but also to the kids served through the public school systems, while at the same time respecting local control, and so the question I'm trying to spit out is would it have been preferable for kids, would it have been preferable for the school system to use that 2 percent; would that have been better, even if it might have been difficult for other reasons? [LB548]

MARQUE SNOW: My personal... [LB548]

SENATOR BOLZ: Sorry, 2 cents, not 2 percent. [LB548]

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MARQUE SNOW: My personal feeling, yes. [LB548]

SENATOR BOLZ: Okay. [LB548]

MARQUE SNOW: It's less cuts that you would have to make out of the general fund for the students that we serve. [LB548]

SENATOR BOLZ: So what's the practical impact of the 2 percent cuts, \$16 million, what does that mean for the kids? [LB548]

MARQUE SNOW: What does that mean to the average person? I'll give you my stump speech. [LB548]

SENATOR BOLZ: Okay. [LB548]

MARQUE SNOW: Omaha Public Schools, we have over 119 languages spoken. We have 18,000 English language learners. We have 52,000 students that we educate every single day. And you need those resources. We don't have the full tax base in the Omaha Public School area, so we need every resource we can get to help those students. We all know that not every kid shows up to first grade on the same level...and kindergarten, so the district provides those resources for those students. And if you think of that, you're saying 17 percent of the students in the state of Nebraska attend Omaha Public Schools. That is the city of Omaha. So any difficult decisions, cuts, or anything down the line that drastically affects Omaha Public Schools affects the city of Omaha which therefore affects the state of Nebraska. For our state to continue to grow and to see businesses flourish, Omaha Public Schools needs to be healthy. [LB548]

SENATOR BOLZ: So what you're presenting to this committee today is that in spite of those sacrifices that will be necessary, your school board unanimously supports using...taking an approach that is at the...under the \$1.05 levy and not the additional 2 percent. [LB548]

MARQUE SNOW: Yes, ma'am. [LB548]

SENATOR BOLZ: You're not pursuing that strategy. [LB548]

MARQUE SNOW: Yes, ma'am. [LB548]

SENATOR BOLZ: And there's unanimous agreement. [LB548]

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MARQUE SNOW: Yes. [LB548]

SENATOR BOLZ: Okay. [LB548]

SENATOR KOLTERMAN: Additional questions? Senator Groene. [LB548]

SENATOR GROENE: Thank you, Chairman. Sir, you said earlier the people of OPS's citizens will be asked to fund this pension bond. So then are you planning on taking it to a vote? [LB548]

MARQUE SNOW: No, I must have misspoken if I said that earlier, I apologize. [LB548]

SENATOR GROENE: And those kind of words. So what you're trying to do here is to avoid a vote, right? In Section 1, authorize all school districts (inaudible) pension obligations on to without a vote. [LB548]

MARQUE SNOW: Yes, sir. [LB548]

SENATOR GROENE: So you don't think the people of Omaha would support this? [LB548]

MARQUE SNOW: I think at the end of the day, we want to make sure that we don't cost the taxpayers more money. [LB548]

SENATOR GROENE: But you're also opening up a can of worms here it looks like. They say: authorize all school districts with pension obligation bonds. And you're the only one, you have a separate one, everybody else is in the state retirement plan. So I could see North Platte when they have an argument with the union or they need to expand or something, they say, whoa, we got to match payroll, 9.88 percent, let's just issue a bond to fund that...this year's obligation instead of using it in our general fund budget. That kind of scares me, because a whole can of worms is being opened here, not just OPS. And maybe...I'm not a bonds lawyer, but that does concern me. Also, another question, that was a lecture, not a question, but you say you're going to take it out of your \$1.05. How many millions...and how much is the payment? I couldn't find the payment for that bond. [LB548]

MARQUE SNOW: For this year? [LB548]

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SENATOR GROENE: Yeah, well, if you have the bond, what's the annual payment for 30 years? [LB548]

MARQUE SNOW: Mr. Kramer would answer that for you. [LB548]

SENATOR GROENE: And then of your mill, how many mills will that take to pay that bond out of your \$1.05? He'll be able to answer that? [LB548]

MARQUE SNOW: Yes, he'll be answering the technical questions. [LB548]

SENATOR GROENE: Thank you for what you're doing. [LB548]

SENATOR KOLTERMAN: Any additional questions for Mr. Snow? Thank you very much. [LB548]

MARQUE SNOW: Thank you. [LB548]

SENATOR KOLTERMAN: Next proponent? Welcome, Mr. Kramer. [LB548]

DAVID KRAMER: Mr. Chairman, members of the committee, my name is David Kramer, D-a-v-i-d K-r-a-m-e-r, 1700 Farnam Street, Suite 1500, Omaha, Nebraska, 68102. I am outside counsel for the Omaha Public Schools and, hopefully, I can answer some of the more technical questions related to the bill today. My goal is to provide you with a bit of an overview of this bill and the rationale for proposing it. We believe, as you've heard from our board members, that this is...and from Senator Lindstrom, that this is a fiscally responsible way to address the OSERS unfunded actuarial liability, while providing the school district with a bit of stability and predictability over the course of the next 30 years. So let me start from the outset, and this goes, really, to a question that Senator Kolterman asked a bit ago. But the objective of this amendment initially was to create a statutory system in which the employee contribution, the employer contribution, and the state contribution to OSERS are sufficient to meet the actuarially required contribution without OPS being required to make additional and variable annual contributions. And in fact, the question that we originally asked Cavanaugh Macdonald, which I don't think...may be buried within what they answered, but isn't answered straight up was what is the number that would enable, given the current actuarial assumptions, what is the number that would need to be contributed today to eliminate the likelihood over the course of the next 30 years that there would be a need for an ARC? That's the reason why that number was left blank. And I would hope...let's not focus on the \$219 (million) or the \$252 (million). There's a number there, but I don't think we've gotten there yet. In order to achieve that goal of eliminating the

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likelihood of an ARC over the next 30 years, we recognized that the...perhaps the best way to do that is for there to be a lump sum contribution made relatively quickly to the system. And as I indicated before...or as you've heard in testimony before, obviously, the school district doesn't have that kind of money immediately available to it. We looked at the fact that the actuary has projected, and you'll see on the exhibits that are there today in front of you, but this is a number that's been floating around since we started this process. And by the way, I will say to Senator Kolterman and to the committee, we very much appreciate the fact that we've had the opportunity to work with you as we've tried to address these problems. We look forward to doing that going forward. But the number that came back was \$882.4 million in likely contributions over the course of the next 30 years. That's above and beyond the 101 percent. And as you might imagine, that's a huge number and was a huge shock to the folks who sit around the board table as they have to deal with how to pay for that. Those contributions range from \$15.6 million to \$45.4 million over the course of the next 30 years. Without knowing the exact amount, that is, and we don't know exactly what the savings can be, our preliminary discussions have indicated that there is likely to be some significant savings, potentially in the millions of dollars. And if you actually look at the exhibit you were referring to just a short while ago, the difference between the \$800 million and \$600 million is significant. Now, there would be interest costs and things like that in there, but still we're talking significant savings over time by having the lump sum contribution. I want to emphasize that this is a restructuring of debt. You've heard that on multiple occasions today. But if you go to OPS's audit, we carry this existing liability after the new GASB standards were adopted. We're the only school district in the state, and even the state doesn't have to do this, we show it as a liability on our books. And so having spoken with our auditor just yesterday, one of the things that this does is it actually has the potential to have a positive impact on our bottom line as we go forward. The amounts will, essentially, just swap places within the audit. But because we begin the amortization process of paying it off automatically, there will be an immediate reduction in the unfunded liability and hopefully a long-term accounting benefit to the district as well. Obviously, you've heard mention that the cost of borrowing today is lower. When we first started this process, we thought that we might be around 4 percent. Our investment advisor, Ameritas, in order to be conservative has said estimate closer to 4.5 to 5. But every bond we've gone out to in the last four years, we've come in under what our investment advisor had projected we would do. So I want to get to Senator Groene, to the issue that you're raising here, because we are proposing to pay for this from within the \$1.05. And I recognize, having been in the political world for more than 35 years...well, more than 40 years of my life, that the idea of not having the bond issue go out the voters is for some people a radical one. But the premise of bond elections is that the voters are authorizing not only the expenditure, but the increase of their tax rate to pay for that expenditure. What the school district is proposing is that there is no increase in the tax rate because we're going to pay for it from within the existing \$1.05. And because of that, there is no need for a vote. This is arguably no different than going out for a large purchase of school buses which we're going to pay for over time; making the investment to hire additional teachers. Because the school district has already

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been authorized to spend that money on specific categories of things, we don't need a vote of the people every time we want to spend money on those. So what we're really asking you to say is, let's add one more category of things you can spend from within your \$1.05; it's this kind of a pension obligation bond. Senator Groene, with respect to your question about school districts being able to utilize this for the 101 percent, in actuality, that's specifically excluded here. You cannot...you cannot use it to pay your 101 percent. You would only be able to pay it if the actuary determined that you had a contribution similar to the one that the Omaha Public Schools has. Back to your question, Senator Bolz, about the unanimity on the board. I think we do have one board member who may have opposed this initially because of the inclusion of the ELI. And we've determined of the early leave incentive provision of this, what we had initially hoped and we have since retreated on was simply that that 2 cent...that 2 cents which we currently use for early retirement to pay that, which exists outside the levy, generates about \$4 million a year for the school district under current valuations. If we had been able to keep that and utilize it for this purpose, it would have resulted, ultimately, in \$4 million less that had to come from the general fund. But practical realities being what they are, we are certainly happy to put that...take that off the table, move that \$4 million back under the \$1.05 and deal with it. And as Mr. Snow and Ms. Goding have demonstrated, the school district has already begun the process of identifying where those cuts are going to come. And, ultimately, and this is where I'll close, if this committee and the Legislature doesn't make a single change, the school district has to find the money between now and the end of the year from within its general fund. We'll do so and we'll continue to do so. So with that I'll stop and answer any questions you might have. [LB548]

SENATOR KOLTERMAN: Thank you, Mr. Kramer. Questions? Senator Groene. [LB548]

SENATOR GROENE: I'm just reading your numbers, with the local effort rate, you guys raised \$219 million, a little over, so if I'm doing my math right, with every mil, you're raising a little over \$2 million...\$2.1 million. [LB548]

DAVID KRAMER: Yeah, that's correct, sir. [LB548]

SENATOR GROENE: Have you looked at the idea of having a levy override like Millard and Westside did? [LB548]

DAVID KRAMER: So we actually have had...gone out for a levy override before and we lost 60 to 40. So a levy override, at least within the Omaha Public Schools, has not been successful. [LB548]

SENATOR GROENE: But you have tools to handle this that the citizens would be involved, right? [LB548]

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DAVID KRAMER: Well, I think the citizens are involved already because they elected our...I mean, they elected our officials and told them to handle this issue. And if we're going to handle it from within the \$1.05, that is a mechanism by which the school district can resolve those problems. [LB548]

SENATOR GROENE: But what Senator Bolz said about the students, why we build schools, if you're maxed out at \$1.05, you're using that money for teachers, teachers' raises, new programs; so you're going to take from that and pay a bond debt. [LB548]

DAVID KRAMER: Senator, we're either going to pay a bond debt or we're going to pay an ARC payment. We don't...either way, we're going to have to make the same payment. [LB548]

SENATOR GROENE: (Inaudible). [LB548]

DAVID KRAMER: Our point is that the bond debt payment is likely to be significantly less than the ARC payment and that's where our taxpayers save. [LB548]

SENATOR GROENE: But we also heard you're going to make an ARC payment also. [LB548]

DAVID KRAMER: Well, but the only reason the ARC...and Senator Groene's example from the Cavanaugh Macdonald is because of the Cavanaugh Macdonald number...the number we asked for, was what number would eliminate the additional ARC payment over the next 30 years. That's not the number they gave back. That's the number we would like to go get, and then we can have that discussion about...I think a more informed discussion. [LB548]

SENATOR KOLTERMAN: I appreciate that. Other questions? Senator Stinner. [LB548]

SENATOR STINNER: What I'm trying to get to, you said it would cost you \$882 million, as we sit here today, that will cost the district without doing the \$219 million. If you do the \$219 (million), based on their computation, it's \$698 (million); the difference is \$184 million. [LB548]

DAVID KRAMER: Yep. [LB548]

SENATOR STINNER: But you still have to service \$219 million in debt which is, at 5 percent interest rate on this, it's probably somewhere in the neighborhood of, I don't know, \$12 (million) to \$15 million per year. So are you really ahead fiscally financially. And what you're trying to

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tell us is, yes, you are because we've added, of that \$219 (million), we've added certainty to that. [LB548]

DAVID KRAMER: So I think there are two components. One of which is, we don't know that \$219 (million) is the number. It may be larger; and I understand that a larger number will bring a larger interest expense. But it also should bring a larger impact on the system going downward right over the course of the next 30 years. And so what we don't know is, what's that delta? What's that difference? And we would look at the...I can tell you that we've looked at, you know, what's the interest cost...the principle and interest cost of this over the next 25 years. If we do 20 year, 25, 30 year, that's all information we would be able to provide so that we can all make that decision once we know what the number is that eliminates that. But we agree with you, the school district... [LB548]

SENATOR STINNER: But all we're doing is substituting one for the other, and we're actually adding on (inaudible.) [LB548]

DAVID KRAMER: Well, actually our position is...well, no our position is that we're not adding on. We wouldn't come to you, Senator, if the math...if the school district's math...I will tell you categorically and unequivocally, if the math of issuing bonds cost the school district more money between now and 2043, the school district would not advocate for the bonds. Unequivocally. [LB548]

SENATOR KOLTERMAN: Thank you. [LB548]

SENATOR STINNER: And you still need to cut your \$16 million (inaudible) do anything. [LB548]

DAVID KRAMER: We still...oh, and we're going to have to do it no matter what. And so we're doing that. [LB548]

SENATOR KOLTERMAN: Mr. Kramer, thank you. [LB548]

DAVID KRAMER: Senator Kolterman, again, members of the committee... [LB548]

SENATOR KOLTERMAN: We get the point. We're going to have to move on because we have an Appropriations hearing in here in a little bit. [LB548]

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DAVID KRAMER: Thank you very much. Have a great day everybody. [LB548]

SENATOR KOLTERMAN: Other proponents. We're going to start limiting it to three minutes. [LB548]

JASON HAYES: Good afternoon, Senator Kolterman and members of the Retirement Committee, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I'm here on behalf of the Nebraska State Education Association. NSEA is in support, primarily, of the pension obligation bonding provisions in the amendment. We believe there needs to be some provision in law to see that the burden...or to ease the burden on OPS in paying its annual actuarial required contribution amount. We do not want these liabilities to negatively impact upon the quality of education in the classroom, providing the option of issuing pension obligation bonds would then enable OPS to spread the liability over a longer time horizon. And for these reasons we support AM1529. And I thank you for your time. [LB548]

SENATOR KOLTERMAN: Thank you very much, Mr. Hayes. Any additional questions? Okay. Other proponents? I would ask that Michael Newman please come forward for a minute so we can ask him some questions. State your name and who you represent. [LB548]

MICHAEL WALDEN-NEWMAN: Yes, good afternoon, committee members. I'm Michael Walden-Newman, that's M-i-c-h-a-e-l, last name, W-a-l-d-e-n hyphen, N-e-w-m-a-n; I'm the state investment officer with the Nebraska Investment Council. [LB548]

SENATOR KOLTERMAN: Thank you. Hi. Thank you for coming. I asked you to come because I just had a couple of questions I wanted to get on the record. [LB548]

MICHAEL WALDEN-NEWMAN: Yeah, sure, you bet. Yep. [LB548]

SENATOR KOLTERMAN: Would you review for us NIC's capital market assumptions and are they the same that you're using for OSERS or NPERS and OSERS. [LB548]

MICHAEL WALDEN-NEWMAN: Yes, Mr. Chairman and committee members, capital market assumptions are the return...or the rates of return we expect for various asset classes for the components of the portfolios we manage. And our investment consultant provides those to us each year. And the last version of those capital market assumptions were presented to a joint meeting of the Nebraska Investment Council and the Public Employees Retirement System Board in November of 2017. Those capital market assumptions you've heard made before in this committee say project that the returns for the plans, for the defined benefit plan we project in the

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short run to be...meaning 10 years...are about 6.3 percent. And in the 30 years, which is...once you get out that far is, you know, that's pretty far out, is actually a bit higher at 6.6 (percent). Those are our return assumptions for the portfolio. And as we've said before and you're aware, those are lower than the 7.5 percent used by the Nebraska Public Employees Retirement System and their actuarial rate of return assumption, as well as the OSERS plan. [LB548]

SENATOR KOLTERMAN: Okay, thank you. Another question, are you familiar with pension obligation bonds at all? [LB548]

MICHAEL WALDEN-NEWMAN: Mr. Chairman and committee members, I've not had direct experience with pension obligation bonds, no; and I've done some reading and I have talked to my counterpart in Kansas in the last month when I heard about this proposal to find out what...a bit about their experience with the two issues they've had of pension obligation bonds in 2004 and 2015. They had a \$500 million pension obligation bond in 2004 and a billion dollar issue in 2015. And I know what I've been told by them about that. [LB548]

SENATOR KOLTERMAN: So if we were able to implement the request that this amendment brings as part of the bill, talk a little bit about whether it's \$219 million, whether it's \$300 million, whatever that number is, how would market timing affect that at this point in time if they came to us and said we're going to dump this into our plan? Give us a little bit of a taste of what you might expect there. [LB548]

MICHAEL WALDEN-NEWMAN: Mr. Chairman and committee members, that's the first question I asked my counterpart in Kansas. I said, when you got the billion dollars, what did you do? And she said we put it to work. And this idea of taking an infusion is your right, regardless of the amount, and putting that amount of money to work on that day is something to think about. I've been asked by both...as you know, we have a great relationship with both OSERS and with the OPS school board through this whole transition. It really has been great and you've heard me say that. And I've talked to both of them a bit about that. I suggested that they...that the Omaha School Board be mindful of our assumed rate of return that we're using regardless of what they have to help cost out a bit just to keep it real and not have surprises. And then I talked about the timing. At first jokingly I suggested that they time their issuance the day before a correction and then send us the money 48 hours after that or within 24 if they could settle it up. But in all seriousness, I did suggest, and whether this is possible or not, that one way to get around the market timing issue is we will put the money to work the day we get it. We're not...that's our obligation as fiduciaries is to put that money to work, not to set it in cash and dribble it into an investment program and dollar cost average. But I did say that they might consider in the structure of the bonds to issue those bonds over a period of time and a series of bonds. And regardless of the amount, if it's \$250 million, to think about having \$50 million

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bonds over a period of months; or \$30 million bonds over a period of months because that way we would put it to work over a six-month period. And quite frankly, 10 years from now, nobody is going to remember when we put that money to work. That's going to...that will be part of the long-term solution. [LB548]

SENATOR KOLTERMAN: Okay. Thank you very much. Are there any additional questions? Senator Groene. [LB548]

SENATOR GROENE: I'm not a bond attorney, and I don't write prospectuses, but if I was looking at investing in bonds, isn't the fact that you have to issue bonds to fund your pensions a red flag? I bet Detroit had those. So would it affect the rating of their bonds when they went out for their school bonds because you'll see that they've already got these bonds for a pension...they can't handle the pension debt, now they're asking for another \$400 million for their school bonds? [LB548]

MICHAEL WALDEN-NEWMAN: Mr. Chairman and Senator Groene, one of the conversation...part of the conversation we had with Omaha school board recently, frankly, was that I'm assured that they're going to do all of that work and good thinking themselves before they come to the decision of whether to issue and how to structure those bonds. [LB548]

SENATOR GROENE: That's a good no answer. Thank you. [LB548]

SENATOR KOLTERMAN: Thank you very much. Any other questions? Seeing none, thank you. [LB548]

MICHAEL WALDEN-NEWMAN: Yes, thank you, committee members. [LB548]

SENATOR KOLTERMAN: I was going to ask Cavanaugh Macdonald to speak, but in light of the fact that we're not going to use those figures anyway, thanks for being here, but we're going to pass. Is there any other support? How about neutral...or opposed? Excuse me, let's get to opposed first. Welcome. [LB548]

RANDY GERKE: (Exhibit 1) Thank you. Good afternoon, Senator Kolterman and members of the Retirement Systems Committee. My name is Randy Gerke, that's spelled R-a-n-d-y G-e-r-k-e; and I'm the director of the Nebraska Public Employees Retirement System. I have a prepared testimony that I'd like to be put into the record. However, in the interest of time I can certainly summarize this if you'd like. [LB548]

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SENATOR KOLTERMAN: If you would, please. [LB548]

RANDY GERKE: I certainly will. NPERS and the PERB are in opposition only of Section 6 of AM1529 which states that we need to conduct an actuarial valuation every five years beginning in 2023. We feel there are three reasons why we're in opposition to that section, and that section only, let me say again. We don't feel that we have the authority to administer to the OSERS plan. We also don't feel that we have a vehicle to pay for that actuarial study. As you know, we allocate our expenses to the plans that we administer so we really don't have the vehicle to pay. And also, the amendment asks us to use the NPERS assumptions to value the OSERS plan, and there are many differences there. And so we feel like that's comparing apples to oranges. With that, I can...if you would put that into the record, the written piece of it, I would close and answer any questions that you might have. [LB548]

SENATOR KOLTERMAN: It will be included. Any questions? Thank you very much. [LB548]

RANDY GERKE: Thank you. [LB548]

SENATOR KOLTERMAN: Anybody else in opposition? Okay, we're going to move to neutral. I will say that we have a letter from Cheryl Richardson who is a member of Retired Educators that came in, in the neutral position and that will become part of the record. Welcome. [LB548]

CECELIA M. CARTER: Good afternoon. Good afternoon, Chairman Kolterman and members of the Retirement Committee, my name is Cecelia M. Carter, that's C-e-c-e-l-i-a M. C-a-r-t-e-r, and I'm the executive director of the Employees Retirement System for Douglas County School District 0001, also known as OSERS. I'm here today authorized to testify in a neutral position to LB548, AM1529. AM1529 proposes school districts in the state of Nebraska be authorized to issue pension obligation bonds upon the vote of the majority the entire school board or the board of education and to use the proceeds to apply to the district's pension obligations. Political subdivisions in other states have used pension obligation bonds to reduce their pension obligation and OSERS board supports the concept in theory. However, it is very important to note the board of trustees respects its fiduciary responsibilities to the members of OSERS and views the Omaha school district's desire to lower the unfunded actual accrued liability as a responsible position to the district and the members of OSERS. We hope the school district continues to investigate options and alternatives in a systemic and holistic manner with buy-in from all stakeholders. With that, thank you. [LB548]

SENATOR KOLTERMAN: Thank you very much. Any questions? Thank you. [LB548]

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CECELIA M. CARTER: Thank you. [LB548]

SENATOR KOLTERMAN: Any additional neutral testifiers? You're welcome to close, Senator Lindstrom. As he's coming up, I just have a general comment that I'd like to make. I find it refreshing that we've had the opportunity, Senator Lindstrom and I, to work closely on this the last two years; really appreciate the efforts of all of you being here today. I apologize for not having the time to take more, but we are a committee that only gets to work over the noon hour or late. But we are working in the right direction, no hidden secrets here. And just appreciate the candor that's been expressed today. Senator Lindstrom, would you please close. [LB548]

SENATOR LINDSTROM: Sure, and I'll be brief; I know we're pressed for time here. And thank you, Chairman; thank you members of the committee. I think...just like to reiterate what was stated. I think Mr. Kramer did a great job of laying out the savings that would happen, based on the restructuring of debt, along with Lou Ann Goding, I think, expressed that very well. With regard to the PERB and Section 6, I would not be opposed to eliminating that if that alleviates any opposition to the underlying amendment. As was stated before, regardless of what number is plugged in, if it's \$219 million, if it's \$250 million, the mechanism in place to lessen the burden on the taxpayer would remain the same whether it was 7.5 percent. I know Mr. Walden-Newman mentioned the 6.6 percent. If all numbers being equal, if you just play out the math of it, if we do nothing, taxpayers will be on the hook for a significantly more money than if we do something and infuse the cash into the system. And whether that's through over a series of time and dollar cost average or it just plays out over...again, I just want to...I looked at the numbers too. We are taking about a third less risk based on the standard deviation relative the S&P 500. So we aren't taking nearly the risk that say a dollar put in the S&P 500 would. I think the Nebraska Investment Council has done a fabulous job, as you know, and had a 13 percent plus return last year. But all things being equal, I think at the end of the day, this saves money for the taxpayer and I would urge the committee to advance the amendment and then proceed to the floor with the bill. So with that I'll be happy to answer any final questions. [LB548]

SENATOR KOLTERMAN: Thank you very much. Any additional questions? Yes, Senator Bolz. [LB548]

SENATOR BOLZ: Just a couple of quick ones. So following the conversation about the appropriateness of a vote or not a vote, what I heard the attorney say was that because it's under the \$1.05, it's appropriate to not take a vote and because he would say that the pension obligation bonds are just the same as other expenses like...he used the example of school buses. [LB548]

SENATOR LINDSTROM: Right. [LB548]

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SENATOR BOLZ: Is there anything that would make a pension obligation bond different than the way someone would consider a purchase of a school bus? Would you say that all expenses are expenses? [LB548]

SENATOR LINDSTROM: Well, I think, yeah, and I think you brought up a good point. I draw the line, I think the distinction is what the taxing authority is at the \$1.05. If they're paying that from the general fund, right, that's under the \$1.05 lid, I see that as an expense like any other expense. And by eliminating the ELI or using that ELI to pay down some of that debt, I think having that distinction between the two buckets what is of the vote of the people that we need to go to the vote of the people to extend that taxing authority above the \$1.05 versus what we're doing under the \$1.05. And so I want to make it clear that we're with these pension obligation bonds keeping it under the \$1.05 so there's no confusion. And I understand, based on conversations that we've had that there might be confusion if we were to utilize that ELI with the \$4 million to pay into that. So I want to make sure there's a clear distinction between what's under the \$1.05 and what's above. And we want to use the under the \$1.05 for the pension obligation bonds. So there's no misunderstanding. [LB548]

SENATOR BOLZ: So maybe a lower level of scrutiny if you're under the \$1.05, a higher level of scrutiny about you're using the resources for if it's above? [LB548]

SENATOR LINDSTROM: Based on our...the authority that OPS has, yeah, I think that's probably a fair statement. [LB548]

SENATOR BOLZ: And then my other quick question is, it's a little hard for me to entirely put the picture together when we've got that X factor, when you just got the placeholder number. When are we going to get that number? [LB548]

SENATOR LINDSTROM: As soon as we request it, I'm assuming. And I think with that number...regardless, again,...what...regardless if you put \$220 (million) into the starting calculation or \$250 (million), if all things being equal and you play out the numbers, if we do nothing it's going to cost more money, right? But we want to make sure that if we're using, say, the 30 years open, 30 years, that we're achieving that 100 percent at some point. So it's just numbers. If we back into that 100 percent at the 30 year, whether that number is \$235 or \$250 and what do the numbers show, at the end of the day it will still save taxpayer money by infusing (inaudible). [LB548]

SENATOR BOLZ: The dollar means it's a matter of how much...how much... [LB548]

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SENATOR LINDSTROM: It is. It's just the range in which we can achieve the highest percentage of funding over those 30 years that we would like to use over those 30 years, yeah. [LB548]

SENATOR BOLZ: Okay. Thank you. [LB548]

SENATOR KOLTERMAN: Additional questions? Senator Groene. [LB548]

SENATOR GROENE: Thank you. But this is a little different than buying buses which you pay a lease off in three or four years. This is stuck in the budget for 30 years. [LB548]

SENATOR LINDSTROM: Regardless if we do the bonds or not, it's stuck in the budget. So the unfunded liability doesn't go away, it's just how do we pay for it. And by having an infusion, it lessens the payments over time because we have more time to grow the money with a bigger lump sum. [LB548]

SENATOR GROENE: But more ARCs could be coming. [LB548]

SENATOR LINDSTROM: They could be coming...sure, they could be coming. They're going to come regardless if we do nothing. [LB548]

SENATOR GROENE: So we just put some more debt, sell some more bonds. [LB548]

SENATOR LINDSTROM: We have the debt regardless of...if we do it. Actually, with the numbers plugged in and all assumptions being equal, we would have more debt over the 35 years by doing nothing, as opposed to having a lump sum infusion that would lessen those payments over the 30 years based on the amortization. [LB548]

SENATOR GROENE: Thank you. [LB548]

SENATOR KOLTERMAN: I declare that we've had a full and fair hearing on this. (Laughter) And we're going to move on to the next item. [LB548]

SENATOR LINDSTROM: Chairman Kolterman, we will now open on AM758...I'm sorry, AM1758. [LB548]

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SENATOR KOLTERMAN: Thank you very much. Good afternoon. My name is Mark Kolterman and I represent Legislative District 24. I'm here today to introduce AM1758 to LB548. I've been talking with OPS representatives for several years and working with them towards finding a solution to the unfunding of OSERS pension plan. I really appreciate the good faith work they're doing to come up with a funding plan, which you heard in the previous hearing. OPS representatives have assured me that they intend to pay the full ARC each year on time, and I believe they are committed to that goal. At the present time, neither the state nor the Legislative Retirement Committee has an enforcement mechanism to ensure compliance with the funding commitment, therefore I'm introducing AM1758 which creates a mechanism to ensure full payment of the ARC each year by August 31. If the full ARC payment is made each year on time, the mechanism is never triggered. If the full ARC payment is not paid by August 31, then the Nebraska Department of Education is required to withhold all state aid until the ARC payment has been made. OSERS is required to notify the Nebraska Department of Education within five business days after the full ARC payment has been transmitted by the school district to the retirement fund. This amendment also inserts language regarding several other practices that are currently not spelled out in statute. ARC payments must be transmitted by the last day of the school district's fiscal year which is August 31. AM1758 merely codifies the current practice when payments have been transmitted by the school district to the retirement fund. The amendment also required the school board to determine the amount of the ARC as recommended by the actuary within 45 days of receiving the actuary's written recommendation. Currently, there is no time frame that establishes when the school board must make the official determination about the ARC as recommended by the actuary. AM1758 also inserts a definition of solvency as the ARC amount annotated by the actuary in the current valuation report. This replaces the incorrect definition of solvency as it currently appears in statute. Finally, definitions are changed in the act to reflect the new assumptions that were adopted based on the actuary's findings and recommendations in the 2017 OSERS actuarial experience study. The new language will allow the mortality tables and the interest rate to be updated in the future as recommended by the actuary and adopted by the board of trustees without requiring a change in statute. Finally, I'd like to say is, as I just mentioned earlier, we've been working on this...if we can come up with a way to cover the ARCs through pension obligation bonds or their willingness to pay them as they indicated they would, this wouldn't matter. But I still think it's important to have, I guess, a hammer to make sure that they make their ARC payments in a timely fashion. Because the bottom line to this whole situation is that we protect the pension members that are expecting to get paid. With that I'd answer any questions you might have. [LB548]

SENATOR LINDSTROM: Thank you, Chairman. Any questions from the committee? No questions? [LB548]

SENATOR KOLTERMAN: I'll stick around to close. [LB548]

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SENATOR LINDSTROM: Okay. Thank you. We'll now move to proponents of AM1758. Good afternoon. [LB548]

JASON HAYES: Good afternoon, Senator Lindstrom, and members of the Retirement Committee, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I'm here on behalf of the Nebraska State Education Association. NSEA supports the state aid withholding and clarification of the actuarial required contribution provisions in the amendment. State law already requires OPS to pay their required ARC in a specific time frame, but if the committee believes an additional requirement is necessary to ensure that such a payment is made in a timely manner, then we understand and agree with the need for such an amendment. And for those reasons, we ask you to support AM1758. [LB548]

SENATOR LINDSTROM: Thank you, Mr. Hayes. Any questions from the committee? Seeing none, thank you. Next proponent? Good afternoon. [LB548]

CECELIA CARTER: Good afternoon. Good afternoon, again, members of the Retirement Committee, my name is Cecelia Carter, C-e-c-e-l-i-a, Carter, C-a-r-t-e-r, executive director for the Employees Retirement System of Douglas County 0001, OSERS. I have been authorized by the board of trustees to testify today in a position of support for LB548, AM1758. AM1758 addresses the needed assumption changes associated with mortality tables used today and for future valuation reports and calculations to more accurately reflect OSERS demographics. This amendment further defines a more systemic analysis of future actuarial required contributions. Importantly, AM1758 provides for defined funding date of any future actuarial required contributions by the Class V school district. The board of trustees holds its fiduciary responsibilities to the members of OSERS as paramount and views AM1758 as an equitable method of securing a systemic funding method for the plan. This amendment provides to the existing and future OPS executive and finance staff and board of education members clear and concise procedures, time lines, and consequences with respect to the annual payment of any unfunded actuarial-accrued liability payments. This requirement alone should give members of OSERS security in knowing any future additional actuarial required contributions by the Class V school district will now be mandated to be contributed into the OSERS plan by a date certain. This function puts the OSERS plan on a more secure path to better funding and greatly reduce the risk to both the school district and the retirement system of, again, facing the unfunded liability issue and challenges which now confront the district. With that, I thank you. [LB548]

SENATOR LINDSTROM: Thank you very much for your testimony. Any questions from the committee? Seeing none, thank you for your testimony. Next proponent? Seeing none, I do have a letter of support from Cheryl Richardson, president of OEA-Retired. We'll now move to opponents of AM1758. [LB548]

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DAVID KRAMER: Senator Lindstrom, members of the committee, my name is David Kramer, D-a-v-i-d K-r-a-m-e-r, I'm here on behalf of the Omaha Public School. The Omaha Public School Board of Education has voted to take a position in opposition to this amendment. I will say at this juncture, it's not strong opposition as we've continued to work with Senator Kolterman over the concerns that we have. We have just a couple of major concerns. The first one is, you just heard 45 days...within 45 days of notice. If somebody came to you and said, oh by the way, in 45 days you need to come up with \$25 million. That is not always easy, even for a school district as large as Omaha Public Schools is. Omaha Public Schools always made the payments that have been obligated of it. We will make it to the extent that Senator Kolterman or the committee and the Legislature feel like you need a hammer, we would hope that you would put that hammer as late in the year as possible so that OPS could and will make those payments before any hammer needs to come down. The second concern we have is really a structural concern and that is that this amendment has the potential to give an unelected board, the OSERS board, the ability to manipulate the assumptions that are used to calculate the ARC, and that can result in them being able to reach into the pockets of the taxpayer and take money out and move it to the retirement system. We believe that that's one of the reasons why we, in the previous bill, we had some discussions about empowering the PERB or another organization to do that, our concern with this amendment is that it does. We also...one other...articulate in this...my final point that we would like to continue to see the plans be harmonized. And for the last ten years, we've been working to harmonize the plan. This moves the actuarial assumption and some of the amortization period, for example, is a bit different. We'd like to see it aligned with the state's, which is 79.96601 which is 30 years. And so, we support harmonization, support alignment with the state. If the state is going to move to 27 years or to 25 years, we'd be happy to move with them. But we think it's only fair that all of our retirement systems be held to those same standards. Thank you very much. [LB548]

SENATOR LINDSTROM: Thank you, Mr. Kramer. Senator Bolz. [LB548]

SENATOR BOLZ: Very briefly, and just because we're creating a record here, I do have a little bit of hesitation about withholding state funds just because of the potential impact on kids, on teachers, on learning, so I want to put that as a concern on the record and say, perhaps offline, if there's an alternative accountability (inaudible) I would be open to discussing that. But in the interest of time, I'll leave it there. [LB548]

DAVID KRAMER: We would welcome that opportunity, Senator. [LB548]

SENATOR LINDSTROM: Thank you, Senator; thank you, Mr. Kramer. Seeing no other questions, thank you. [LB548]

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DAVID KRAMER: Thank you. [LB548]

SENATOR LINDSTROM: Next opponent? Seeing none, we'll move to neutral testimony. Seeing none, Senator Kolterman, Chairman, would you like to close? [LB548]

SENATOR KOLTERMAN: Thank you very much, Senator Lindstrom. Again, I would tell you that we have worked very well. Hammer, maybe, is a little strong, but at the same time...I can tell you that while the intention has been made to pay 101 percent over the last few years, there were several years that the actuarial tables will show you the 101 percent were not actually made. And I can show you that if you'd like to see that. There has to be a way to make sure that this money gets into the account that it gets into. These people have worked, in many cases, 30-some years to get a pension plan. The sole purpose of this hearing today is to guarantee that their payments will be made in a timely fashion. And when you're \$700 million behind in your pension obligations, that's troubling to me, as well as many other people in this room. So with that I would close by saying thank you. You have my commitment to continue to work with Omaha Public Schools, with OSERS, and this committee to make sure that we can come up with some positive results for the teachers and the members of the school district that we're talking about here today. [LB548]

SENATOR LINDSTROM: Thank you, Chairman. Any final questions? Senator Kolowski. [LB548]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Mr. Chairman, also, I suggest...I guess you have, basically, given us the orders then to make sure it's harmonized or find a new choir director, is that correct? [LB548]

SENATOR KOLTERMAN: To a certain extent we have harmonized a lot of the pension plan over the last three years; actually probably four or five years when Jeremy...Senator Nordquist was in the position that I'm in. And I would tell you that last year we made some great steps. Over the last three or four years, we've created new tiers inside of their system, as well as our own. And again, they've all been to protect the pension plans... [LB548]

SENATOR KOLOWSKI: Absolutely. [LB548]

SENATOR KOLTERMAN: ...of the people that have been working for the school districts and the other organizations. So harmony is important. I think we've moved in that direction quite nicely over the last three, four years. But I do appreciate hearing that again. [LB548]

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SENATOR KOLOWSKI: Thank you. And I appreciated the OPS people being here today, what we've learned, and the work you and your assistant, Director, have done on this particular topic. Thank you very much. [LB548]

SENATOR KOLTERMAN: Thank you. [LB548]

SENATOR LINDSTROM: Any final questions? Seeing none, thank you. Thank you, Chairman Kolterman. That will end the hearing on AM1758 and that will end the Retirement hearing for today. Thank you. [LB548]