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Appropriations Committee  
February 18, 2014

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[LB669 LB940 LB1046 LB1086 LB1091 LB1094]

The Committee on Appropriations met at 1:30 p.m. on Tuesday, February 18, 2014, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB1091, LB669, LB1086, LB1094, LB940, and LB1046. Senators present: Heath Mello, Chairperson; John Harms, Vice Chairperson; Kate Bolz; Danielle Conrad; Bill Kintner; Tyson Larson; John Nelson; Jeremy Nordquist; and John Wightman. Senators absent: None.

SENATOR MELLO: Good afternoon and welcome to the Appropriations Committee. My name is Heath Mello. I'm from south Omaha representing the 5th Legislative District and serve as the Appropriations Committee Chair. I'd like to start today off by having members do self-introductions, starting first with Senator Kintner.

SENATOR KINTNER: Hi. I'm Bill Kintner from Legislative District 2, and that's about half of Saryp County, all of Cass County, and a little bit of Nebraska City.

SENATOR MELLO: Sitting next to Senator Kintner, who will be joining us later is Senator Jeremy Nordquist. He represents the 7th Legislative District in south Omaha and downtown.

SENATOR NELSON: I represent Legislative District 6, central Omaha, 62nd out to 132nd Street along Dodge. I'm John Nelson.

SENATOR HARMS: I'm John Harms. I represent the 48th Legislative District, all of Scotts Bluff County.

SENATOR WIGHTMAN: John Wightman, District 36...

SENATOR CONRAD: Danielle...

SENATOR WIGHTMAN: ...all of Custer County, Dawson County, and a small part of Buffalo County.

SENATOR CONRAD: Danielle Conrad.

SENATOR BOLZ: Senator Kate Bolz, representing District 29.

SENATOR MELLO: Sitting next to Senator Bolz is Senator Tyson Larson who will be joining us shortly. Senator Larson represents the 40th Legislative District in northeast Nebraska. Assisting the committee today is Anthony Circo, our committee clerk; and Matthew Ruiz, who is a senior studying international business at the University of Nebraska-Lincoln and is our committee page. Sitting to my right and your left is Jeanne

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Glenn, who will be our fiscal analyst for the afternoon. On the tables in the back of the room you'll find some yellow testifier sheets. If you're planning on testifying today, please fill out one of those sheets and hand it to Anthony when you come up. It helps us keep an accurate public record of today's hearing. There is also a white sheet on the back cabinet if you do not wish to testify but would like to record your position on a specific budget item or a bill in front of us. If you have any handouts, please bring at least 11 copies up when you testify, and give them to Matthew, our page. If you do not have enough copies, he will go make extra copies to distribute to the committee. In the interest of time, today's hearing will operate a little differently from our normal procedure. We will be combining the three property tax credit bills into one hearing, and we'll be doing the same on the two water funding bills. This means that the senators and their respective bill groups will all give their opening statements before we move on to public testimony in support, opposition, or neutral capacities. After we hear the senators' opening statements, we will then hear from supporters and those in opposition, followed by the neutral capacity, when we will finish closing statements by the introducers if they wish to give one to the committee. We ask that you begin your testimony today by giving us your full first and last name, and spelling them for the public record. We will be using a five-minute light system today. When you begin your testimony the light on the table will turn green. The yellow light is your one-minute warning. And when the red light comes on we ask that you wrap up with your final thoughts for the day. As a matter of committee policy, I'd like to remind senators that the use of cell phones and other electronic devices is not allowed during public hearings; and at this time I would ask all of us, including senators and those in the audience, to look at our cell phones and make sure that they are on the silent or vibrate mode. With that, at this time we will begin today's public hearing with Senator Conrad.

SENATOR CONRAD: Thank you, Chairman Mello. Good afternoon, colleagues. My name is Danielle Conrad; that's D-a-n-i-e-l-l-e, Conrad, C-o-n-r-a-d, and I represent the "Fighting" 46th Legislative District of north Lincoln. I'm here today to introduce LB1091. LB1091 makes changes to the job training grant limitations and increases the maximum amount of expenditure per job if that job provides wages that exceed \$50,000 annually or for jobs created in high poverty areas. LB1091 also transfers \$5 million from the Cash Reserve to the Job Training Cash Fund for these purposes. The Job Training Cash Fund is used to support and enhance employment in businesses and industries throughout Nebraska in the skilled training employment program. Costs associated with training new employees are funded through this program. LB1091 is a targeted approach to address skills gaps that hinder employers from finding and hiring employees that have the skills for the jobs they provide. In today's ever-changing job market, skills for certain jobs, especially in manufacturing and technology, are constantly changing, and we need to continue to invest in training workers to meet those needs. This is an issue that will be very familiar to many of the members of our committee, as during the course of the recessionary period we worked together to protect this important state investment. We've talked at great length about ensuring that

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these dollars are best targeted to ensure the best return on investment for Nebraska taxpayers, and I think LB1091 is an appropriate evolution of that policy that this committee has been a significant part of. So with that I'm happy to answer any questions, and I know that there is at least one testifier behind me today. Knowing how busy our committee would be this afternoon, we took great pains to consolidate testimony. [LB1091]

SENATOR MELLO: Thank you, Senator Conrad. Are there any questions from the committee? Seeing none, thank you. [LB1091]

SENATOR CONRAD: I'll waive my closing as well. [LB1091]

SENATOR MELLO: Okay. We will first hear proponents for LB1091. [LB1091]

JOSEPH YOUNG: Good afternoon, Chairman Mello and members of the committee. For the record my name is Joseph Young. It's spelled J-o-s-e-p-h Y-o-u-n-g, and I'm the director of public policy for the Greater Omaha Chamber, testifying today on behalf of the chamber and the Nebraska State Chamber of Commerce and Industry as well. And we'd also like to thank Senator Conrad for introducing this bill. The Customized Job Training Program really benefits the state in a few critical ways. It helps with work force development, business recruitment, as well as business retention and expansion as well. With regard to the recruitment piece, when DED, or the Dawson County Economic Development, folks sit down with a business they're trying to recruit, one of the first things they discuss, among things like the Nebraska Advantage Act and the overall cost of doing business is obviously work force availability. First, are there enough people in the area to fill the jobs that they are bringing? And then, second, are they well educated and/or trained in making the products and services that this business offers? If the answer to the first question is, yes, there are enough folks in the area to fill the jobs, then the answer to the second question is less important because of programs like this, the Customized Job Training Program. This program ensures that when a business is worried about how the local work force will perform, they needn't be too concerned about the cost of training 25 or 100 or 150 new employees. The program helps essentially hedge that risk that the business would have when moving a large operation or a small operation into the area. And this program actually is one of the nation's most effective job training programs and gets kudos from some of the most prominent business site selection consultants in the country. So let me discuss the way this program works because it's probably one of the more confusing funds that this committee deals with year to year. So currently, if you look at the fund balance, at least as of last November, which is kind of when we have the most current numbers, the fund balance sits at just over \$9 million. But that's a little misleading. Of that, in that fund balance right now, currently, there is the Customized Job Training Program and the Intern Nebraska...funds for the Intern Nebraska program. So really the job training piece of this is sitting around \$6.2 million. Of that, there's about \$3.2 million under actual

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contract that hasn't been expended yet. So that cuts the fund in half. So the subtotal of that, then the remaining, there's about \$3 million committed to potential projects coming into the state. So when DED sits down with a potential project moving into anywhere in the state, they'll say we can commit, let's say, 100 grants to you at \$2,000 apiece. So currently, of that, about half the \$3.2 million, about \$3 million of that is committed to projects. So if a new project comes in today and says, what kind of job training programs can you offer me, there's really only about \$739,000 available for DED to make a commitment to a new company. And that's challenging when we're trying...you know, when we're trying to compete with the states around us. So I hope that clears it up, and I can answer any questions after this too. So since this legislation raises the grant thresholds, too, for high-wage jobs and jobs in high poverty areas, I would suggest that to make the program effective there needs to be really a healthy fund balance that's uncommitted in the program. Anecdotally, I think it was IBM a few years ago, maybe 18 months or 24 months ago, that was looking to move a really large operation to the Lincoln area. We lost that program to Louisiana, I believe, and one of the main concerns was work force availability and whether those folks were trained in the areas that IBM was going to move these jobs into, so. And I was told by the now retired deputy director at the time that if they would have had this extra grant thresholds, that they would have been even more competitive at the end of the day for that project, so. With that I would answer any questions you guys have. [LB1091]

SENATOR MELLO: Thank you for your testimony today, Joseph. Are there any questions from the committee? Senator Harms. [LB1091]

SENATOR HARMS: Thank you, Joseph, for your testimony. You said you think this fund should have a healthy balance. What does a healthy balance mean? [LB1091]

JOSEPH YOUNG: Well, a healthy balance in the sense that there are enough funds uncommitted so that if...for example, right now, we have \$740,000, I think, that could be allocated or at least committed to a new project that's coming in. We think, especially because of this higher grant threshold, that, you know, anywhere from I would say you could argue \$5 million to \$10 million, \$3 million to \$10 million. A project like that IBM project I think was going to move somewhere upwards of 200 jobs into the community, into Lincoln. So if you're talking about 200 jobs at even \$4,000 or \$5,000 a pop, you're going to expend that fund pretty quickly. [LB1091]

SENATOR HARMS: The other question I have, Joseph, is who does your training? We go down this road, I think a couple years ago when we got into this aspect of training. I'm just curious about who is now doing your training and how's that all being handled? [LB1091]

JOSEPH YOUNG: Well, I think for the most part when companies come in, they have training programs built into their existing infrastructure. So there is, I know, a notification

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now for community colleges. If someone is moving a company into Omaha, the Metro Community College gets a letter saying that this company is moving into the area; they have this many jobs and they're receiving job training funds so that there's an option for those folks then to work out with each other. If the company can use the community college they can do that, or they can, of course, use their own proprietary training information. [LB1091]

SENATOR HARMS: So how many are actually using the community colleges? [LB1091]

JOSEPH YOUNG: I don't know the answer to that question but I can find it. [LB1091]

SENATOR HARMS: Could you find that out for me, please? [LB1091]

JOSEPH YOUNG: Sure. [LB1091]

SENATOR HARMS: Thank you very much, Joseph. [LB1091]

SENATOR MELLO: Senator Nelson. [LB1091]

SENATOR NELSON: Thank you, Chairman Mello. Thanks for coming in today, Joe. You have mentioned a couple times when a new project comes in. Could you give us an example of what a project is, for instance, based on past...what does that involve? Who brings that project in? [LB1091]

JOSEPH YOUNG: So it depends. A project, DED or Greater Omaha Chamber can get a call from a site consultant with information about...usually it's confidential, so that they won't even tell the economic development consultants who the business is. But they will say, I have a large IT employer looking to bring, I'll just say, 100 jobs into the community; we've actually already narrowed it down to three to five states; now we need to get down into the weeds on what Nebraska Advantage is, what the benefits are, what the overall cost of doing business in your community and the other four or five states that we're looking at. So it could also be a representative of an actual company coming in and making the phone call. It's really kind of a crapshoot. [LB1091]

SENATOR NELSON: Okay. Thank you. [LB1091]

JOSEPH YOUNG: Um-hum. [LB1091]

SENATOR MELLO: Senator Bolz. [LB1091]

SENATOR BOLZ: Hi, Joseph. Could you just give me a few words about the outcomes of this program? Can you quantify for us how many jobs have been created; are they sustained, that we can directly connect to this funding stream? [LB1091]

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JOSEPH YOUNG: You know, I do know the number exists of how many jobs this has helped retain and attract to the state. I don't have that number off the top of my head. I'm going to have to get that to you. What was the second question, or was that it? Was there two? [LB1091]

SENATOR BOLZ: I think you got it. [LB1091]

JOSEPH YOUNG: Okay. Well, I'll get that. I'll follow up with you on that too. I will say though that there's...like Nebraska Advantage, these are performance-based. So there is an agreement in place, and then the company has to actually train the employees, and there's a short audit that goes on where an employee from DED will go in and make sure that those hours were used as training hours. And then after that the grant is expended, which is why you see in the fund there is currently \$3 million under contract that actually haven't been expended because those audits haven't happened yet. [LB1091]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Joseph. [LB1091]

JOSEPH YOUNG: Appreciate the time. [LB1091]

SENATOR MELLO: Other proponents for LB1091. [LB1091]

BRUCE BOHRER: Good afternoon, Chairman Mello, members of the committee. Bruce Bohrer, appearing on behalf on the Lincoln Chamber of Commerce. The first name is spelled B-r-u-c-e, last name B-o-h-r-e-r. I think Senator Conrad and Mr. Young did a good job of covering the issues, and I would just maybe expedite the hearing a little bit by saying we'll align ourselves with the reasons that have been previously stated for the record. We are in support of LB1091 and see that the guidelines added for high-wage jobs in high poverty areas are a good thing. I think Senator Conrad alluded to a targeted approach. We certainly see that as a positive in the Job Training Cash Fund. And just add one thing. I think Mr. Young had mentioned the IBM job was 200 jobs. That was the first phase. The next phase was another 200 jobs. And we've had another...a few other bites along that same line. Our Haymarket development is coming along a little more rapidly than we even expected. That's a good thing. And Innovation Campus as well. So one of these days we're going to get one of those and it's going to drain down that fund really quickly; so that's another reason we really do support the healthy balance that Mr. Young alluded to. I'll conclude my remarks unless there are any questions that I can answer. [LB1091]

SENATOR MELLO: Thank you for your testimony today, Bruce. Are there any questions from the committee? Senator Harms. [LB1091]

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SENATOR HARMS: Thank you very much, Bruce, for coming and testifying. [LB1091]

BRUCE BOHRER: You bet. [LB1091]

SENATOR HARMS: Could you give us some examples of who it's helped to attract to Lincoln; any companies it's helped attract to Lincoln or expand? And where has the benefit been here? [LB1091]

BRUCE BOHRER: Well, there's...I can't think of the...it's a manufacturer that's out at Airpark. I can't think of the name right now, but they specifically looked at this and said, yeah, we would really like some help in job training. A lot of it is in manufacturing but also high-tech companies as well. They like this benefit because it's something that isn't just for the company; it's something that goes to the employee themselves. They get trained and then they can move on as well; they can always have this. I can get you a list of the companies. [LB1091]

SENATOR HARMS: Yeah, I'd like to see the list if you would, please. Thank you. [LB1091]

BRUCE BOHRER: Yes. [LB1091]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Bruce. [LB1091]

BRUCE BOHRER: You bet. [LB1091]

SENATOR MELLO: Are there any other proponents for LB1091? [LB1091]

RENEE FRY: Good afternoon, Chairman Mello and members of the Appropriations Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. I don't have prepared comments today. I just wanted to share a little bit of research that we have on job training. I will say that we do have serious reservations about using the Cash Reserve, which we'll go into in more detail in the next hearing. That said, I had the pleasure of listening...hearing from senior economist Timothy Bartik at the W.E. Upjohn Institute for Employment Research a couple of years ago, and he's done extensive research looking at economic development and what tools work for states. Interestingly enough, he has found a good economic development tool is pre-K, and I cite that quite often. But he has also found that job training is very effective. And I do have a couple of quotes from some research that he's done. He finds that customized job training incentives are 10-16 times more effective in jobs created per dollar of incentives than tax incentives. He has also found that customized job training programs can have a high return on investment, and that the productivity

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benefits of customized training are 1.8 times the program costs. So to the extent that the Legislature is looking for ways to grow our economy, we do believe that job training programs are one effective way to do this. I'd be happy to answer questions. [LB1091]

SENATOR MELLO: Thank you for your testimony today, Renee. Are there any questions from the committee? Seeing none, thank you. [LB1091]

RENEE FRY: Thank you. [LB1091]

SENATOR MELLO: Any other proponents for LB1091? Seeing none, are there any opponents to LB1091? Seeing none, is there anyone here in the neutral capacity? Seeing none, Senator Conrad waives closing. That will end today's public hearing on LB1091, and take us to our first of multiple hearings. First, the first three bills will be LB669 by Senator McCoy, LB1086 by Senator Pirsch, and LB1094 by Senator Al Davis, all three involving the Property Tax Credit Fund. And we will wait. We have some scheduling challenges we're wrestling with, so Senator McCoy will be joining us shortly. Good afternoon. [LB1091 LB669 LB1086 LB1094]

SENATOR MCCOY: Thank you, Chairman Mello, and I appreciate your patience as I was across the hall. And good afternoon, Appropriations Committee. I am Beau McCoy, for the record, B-e-a-u M-c-C-o-y, and I represent the 39th District, and I am here this afternoon to introduce LB669, which would be a one-time transfer of \$85 million from the Cash Reserve Fund to the Property Tax Credit relief (sic) Fund. You know, I think a lot of us, and some of you obviously were on the committee, on the Tax Modernization Committee, heard a lot of testimony across the state about the property tax burden for Nebraskans. And I believe that such a transfer would provide some immediate relief to Nebraskans, not just for those in agriculture but for the young family that's looking to purchase a home in Omaha or Lincoln and everyone in between. You know, and I think you're going to hear obviously a number of bills today on varying amounts that could be added to the fund that of course, as all of you know who have been around since 2007 and all of you on this committee talk about every two years, as we all do on the floor, and the value of it and what that means, not only as you budget and put together a budget but as all of us budget in our personal lives, in our businesses across the state. And I think the particular situation we find ourselves in today, and depending on the statistics you look at, Omaha has the largest or I should say the 12th highest property tax burden of a metropolitan area of any city across the country. That's pretty remarkable considering the major metropolitan areas that we have. And in addition, USDA just a couple weeks ago came out with statistics showing that Nebraska agriculture producers pay the third highest property tax burden of any state in the country, behind California and Texas. And I think a combination of those factors along with falling commodity prices, which some would say creates a potential reason why we should be very judicious with the Cash Reserve, and I wouldn't disagree with that. But I think the combination of that situation along with rising valuations across the state

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means that we really do need to do something. And again, there may be those who disagree as to the amount. You know, there's been a lot of talk, clearly in the media and otherwise, about that. But I think this is one area that we in the Legislature, one of maybe only a couple of ways, in my mind, this and perhaps reducing ag land valuations, that we in the Legislature can really effect property tax relief while at the same time I think preserving what we hold dear, and that is local control, and that is the ability to have locally elected officials have a responsibility and to taxpayers to set up budgets that make sense and budgets that balance and be held accountable to their constituents as well. And I...and my hope would be that as you as a committee look at this and eventually perhaps we, the full body, look at this issue, that we keep that in mind. I know that you will, as you always do. You have a difficult task, as we all do, to make sure that we are protecting that Cash Reserve and that rainy day fund, and using it as we sometimes do and we have in the past for certain high-priority issues. In my view, this rises to that level. And with that, I would conclude. [LB669]

SENATOR MELLO: Thank you, Senator McCoy. Are there any questions from the committee? Senator Conrad. [LB669]

SENATOR CONRAD: Thank you, Senator McCoy. A couple questions: Under your proposal, have you had the chance to run any calculations in terms of what the average benefit might be to a recipient if your bill were to be included in the budget? [LB669]

SENATOR McCOY: Well, obviously, that's dependent upon the amount of... [LB669]

SENATOR CONRAD: Yes. [LB669]

SENATOR McCOY: ...of property that exists. I mean you can run calculations and you can look at what, you know, \$115 million was worth, Senator Conrad, in 2007, and with inflation and added valuations what it would be worth today. You know, it would appear that I think we hit a level, if I'm remembering correctly, of I think \$129 the Property Tax relief Fund was worth. And I think 2009, as I recall, was the high point for someone who owned a \$150,000 home. But today I think we'd fall somewhere in the \$90, mid \$90s, I think that it's worth in today's dollars. So obviously, that's going to be dependent upon, you know, whether you have ag land, whether you don't; how much property you own. So I think it's a little hard to determine. But I mean in sheer numbers, if you add \$85 million, I think it's 75, it would be a 75 percent increase, all things being equal, which they aren't, but if you were to add \$85 million. [LB669]

SENATOR CONRAD: No, I appreciate that it's a different calculation for different property taxpayers, but just in terms of kind of illustrating the tangible benefit, we usually do utilize I think a \$150,000 home, for example,... [LB669]

SENATOR McCOY: Uh-huh. [LB669]

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SENATOR CONRAD: ...or at least the media does when they talk about this program. [LB669]

SENATOR McCOY: Sure. [LB669]

SENATOR CONRAD: So that's kind of a nice yardstick, yeah. [LB669]

SENATOR McCOY: It's a...sure, which I think isn't far, I don't believe, from what the average home value I think across the state, it might be a little bit less than that, as I recall, but it's a good round number to figure from. [LB669]

SENATOR CONRAD: Right. Yeah, so I was just trying to see if you knew maybe by chance what your legislation would do for that average homeowner. And if you don't know off the top of your head, we could definitely get that. [LB669]

SENATOR McCOY: Well, I think it's, as I said, you know, we're, you know, we're some...in today's dollars we're looking at that's worth in the mid \$90s and so you'd add 75 percent to that. So it kind of gives you an idea, based upon that, where you'd be in rough numbers. [LB669]

SENATOR CONRAD: Okay. And then on the topic of how did you settle on the number, \$85 million, and why did you choose to make it a one-time benefit? [LB669]

SENATOR McCOY: Well, I think that's out of respect, honestly, to our budgeting process. I think that that's obviously, you know, in the Legislature we review this, as I think we should, in an ongoing basis as we appropriate and ultimately as we view this on the floor of each biennium budget. This number to me appeared to be something that you could...actually would be a real benefit to those who are paying property taxes, which is a lot of us across the state. Again, and that's why I said in my opening, you know, there may be those that say it's a lesser number. It may be. I think it's very difficult to probably contemplate, in my mind, although there may be those that disagree. Even though I'd like to, you know, I think it would be challenging as you think in amounts greater than this of how that would work going forward. But I would also maintain that...and we talk about this in the Revenue Committee when we talk about ag land valuation changes. I mean we are at a point I think in Nebraska where some other of our neighboring states have been in the past where they've really been forced, because of rising valuations, not just in ag lands but in other property classes, to look at how property is assessed and does that make sense. And that's not part of this legislation, nor should it be, and it's not part of a bill that I have currently in the Revenue Committee to change ag land valuations. But I think we are not far, in my mind, from a time when we need to look at that as a state and make sure that it's equitable and that it's affordable for a family to purchase a home and not have the taxes be such a burden

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that it's difficult to try to achieve that American dream of buying a home or for those in agriculture to stay in agriculture and to be competitive. [LB669]

SENATOR CONRAD: Okay. And I think that the Tax Modernization Committee had a great deal of research and a great deal of testimony in their endeavors across the state last interim period on these topics, and of course the property tax burden was at the forefront of most Nebraskans' minds, I think that's a clear takeaway from that effort. But on that topic, you're going to be well familiar with the fact that a lot of our actions impact property tax rates and burdens for everyday Nebraskans. So whether the solution lies in increasing TEEOSA funding or restoring state aid to local municipalities or looking at additional funding for community colleges or jail reimbursement or any of the other strategies that exist for reducing the property tax burden, why did you choose this one solution to move forward with this session? [LB669]

SENATOR McCOY: Well, it isn't just this one solution, Senator Conrad. I mentioned that I also have a bill to lower ag land valuations, not in this committee but in the Revenue Committee, of which of course I am a member, from 75 to 65. This was a topic of a lot of conversation, a lot of testimony, the Tax Modernization Committee. And on your point earlier about there being multiple ways to address this, that's true. But as you probably well know and others do from being part of some of those hearings, Senator Nordquist repeatedly across the state, in all five locations as I recall, would ask locally elected officials if we were to reinvigorate or reinstall state aid, will that result in a tax decrease. And not one local elected official said that it would. Some said that it might, but none said that it would. So to me, this seems to be a way that again we can inject real property tax savings to Nebraskans, directly to them, which I think was the whole reason this, the Property Tax relief Fund was put in place in the first place. I wasn't here. That was right before I became part of the Legislature, but there are those who...some of which are here today that took part of that in their first session of the Legislature, including you, I believe. [LB669]

SENATOR CONRAD: Yeah. That's right. [LB669]

SENATOR McCOY: And I think that was the idea in mind, at least from our research and my understanding of the issue and from talking to those that were here, is it's a way to still maintain that local control, allow that at the local level, while still effect property tax savings and one of few ways we can, I think, as a Legislature. [LB669]

SENATOR CONRAD: Very good, and last question, Senator McCoy. You've taken strong advocacy positions in terms of our state budget, and we always welcome debate on the budget from this committee's perspective, and have argued very forcefully about any sort of increase in state spending. At the heart of this program, this is a spending program. So how do you differentiate your concern about state spending with your proposed increase of \$85 million in state spending? [LB669]

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SENATOR McCOY: Well, I believe fundamentally when we look at the level we have a Cash Reserve at today, Senator Conrad, we're overtaxing Nebraskans. I've said that many times. And I don't see this as a spending program. I see this as giving back to hardworking Nebraska families and businesses tax dollars that are over and above what we needed and returning that to them to reinvest in their family budgets and in their businesses to in turn grow our economy and create additional revenue to the state. That's how I see it. And I understand there are differing perspectives to that, but that's my viewpoint on it. [LB669]

SENATOR CONRAD: Okay. Very good. Thank you. [LB669]

SENATOR MELLO: Thank you, Senator Conrad. And for the public record, Senator Tyson Larson has joined the committee for the afternoon. Senator Wightman. [LB669]

SENATOR WIGHTMAN: Thank you, Senator McCoy. You talk about your other bill. I was first going to ask you if there was any connection between the two, and obviously there's not, on the property tax valuation or ag land valuation. And I don't know, is yours one...I think there are two bills pending and maybe three that would reduce it, and two of them I think are the 65 percent. Is that correct? [LB669]

SENATOR McCOY: That's correct, Senator Wightman. I'm just trying to remember off the top of my head. Unless I'm mistaken, we have a couple of bills that are layover bills from last year's session as well that we've talked about in last year's session, so there's a number. And I understand full well the difficulties of. I don't think we're in a position where we're probably going to, although it would certainly be my desire, that we could find a way to do both, and maybe we can. But it's certainly something I believe that needs to be part of the discussion because I, again, I think we're at an unsustainable juncture, at least on the trajectory that we're on, of property taxes in agriculture and outside agriculture. [LB669]

SENATOR WIGHTMAN: And I think in some ways the change in the property tax may not...or farmland values, property tax may not change a lot of districts very much or a lot of counties very much, because they've got almost all their land is ag land. And so they're supporting everything that's paid for with tax dollars out of that. So one way or another, they're probably going to be paying about the same amount of property tax. [LB669]

SENATOR McCOY: That's a great point, Senator Wightman, and that issue, as I recall, might not have been, I don't know that there would be anyone, with the exception of Senator Chambers, that would have been around the last time ag land values were dropped for taxation purposes, I think was in 2006. And the late Senator Bob Kremer I believe was the sponsor of that bill, which probably would have been right before

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anybody else here arrived at the Legislature, with the exception of Senator Chambers. And it's my understanding that was part of the discussion then, was that there were certain counties that it was...that a reduction in ag land valuations would affect property tax savings more than others. And there are a good number of rural counties in Nebraska where that would be a challenge. And I think at the time, it appears to me from reading transcripts and trying to talk to everybody that I can, that the decision was still made to do that because there were still quite a number of our 93 counties where it would make a very real and positive difference in the reduction of property taxes. And I think it did and still does. But with the rising valuation situation that we find ourselves in, it's less of an impact today than it was then. And that, at that point, that was moved from 80 percent to 75. [LB669]

SENATOR WIGHTMAN: Thank you. [LB669]

SENATOR MELLO: Senator Nelson. [LB669]

SENATOR NELSON: Thank you, Chairman Mello. Thank you, Senator McCoy, for coming today. This is just an across-the-board credit to every person who pays property tax, if I understand it correctly, and it comes out of the fund which is already in existence. All right. So is...does everyone get the same percentage of credit? Could you explain that, how it works, when the Tax Commissioner has to decide how much credit we're going to get? [LB669]

SENATOR McCOY: That's correct. It's based on the \$1,000, each \$1,000 of assessed value in property, be it residential, ag land. It's all property tax owners. [LB669]

SENATOR NELSON: So out of that fund, if we put \$85 million in there out of the Cash Reserve, why then that has to be divided up so that everyone benefits from it. [LB669]

SENATOR McCOY: That would be correct. [LB669]

SENATOR NELSON: And what was the figure again on an average? Did...I think Senator Conrad's question, did you have an estimated figure? [LB669]

SENATOR McCOY: Well, it reached a high point, I believe, in 2009, so just a couple of years into the program, into the life of fund, when the money coming in resulted in, for an average...an average property taxpayer that owned a home assessed at \$150,000, the high point I believe, unless I'm mistaken, was \$129 that you would see. [LB669]

SENATOR NELSON: Twenty-nine? [LB669]

SENATOR McCOY: One twenty-nine, uh-huh, that you would see as that line-item Property Tax Credit relief Fund injection off your property tax bill. Obviously, that would

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change greatly with whether that was agriculture, ag lands,... [LB669]

SENATOR NELSON: Uh-huh. Yeah. [LB669]

SENATOR McCOY: ...or commercial, or larger or smaller home, whatever the case may be. But I think that, it's my understanding and I'll say it off of personal example because I look at our own property tax bills, that's been reduced by some degrees since then. It's not going nearly as far in today's dollars with valuations as...it isn't going as far as what it once did. [LB669]

SENATOR NELSON: All right. Thank you. [LB669]

SENATOR MELLO: Thank you, Senator Nelson. Senator Bolz. [LB669]

SENATOR BOLZ: Good afternoon. A question that follows nicely with Senator Nelson's question, one of my concerns is that this is a broad approach, and so my question is why not do the work of creating a circuit breaker program or another more targeted strategy to make sure the property tax relief gets to the people who most need it? [LB669]

SENATOR McCOY: Well, I would argue, Senator Bolz, that the ones who most need it are the ones who are paying it. You know, we all, any of us that own property, whether it's a small amount of property, a large amount of property, we're paying property taxes. And I would argue that all Nebraskans deserve that or any that are owning property. You know, some will say, well, you know, you might have a son or a daughter that's inherited farm ground and they're paying those property taxes and they're receiving a credit for property taxes and they don't live here. Well, they're still paying property taxes here. And I think that those who are paying it should deserve a break. That's how I see it. That isn't to say that circuit breakers don't have merit and we've talked at length about them and the Tax Modernization Committee and otherwise. But unless I'm, you know, mistaken, it's not something we're really having a whole lot of discussions about at this juncture. And it may have merit down the road. [LB669]

SENATOR BOLZ: I don't disagree that it will take work, but I maybe have a difference of opinion with you in that someone like Ted Turner needs property tax relief just as much as my dad who owns a couple hundred acres out in Otoe County. My second question, Senator McCoy, is, you know, we'll have some turnover on this committee, but I'll be here in a couple of years and you will be in some way or another. What will we say when property taxes go back up in a couple of years to our constituents, because this isn't sustainable. Or do you think it's sustainable? [LB669]

SENATOR McCOY: Well, again, I think that's the appropriations process that we go through with each biennium budget, Senator Bolz, and previous Legislatures before I

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arrived here and before you arrived here made the decision to continue forward with this Property Tax Credit relief Fund. And it's the will of the Appropriations Committee and the will of the Legislature to either continue that or not. And I think it's hard for...to hypothetically say whether or not that's going to continue. I certainly hope that it would, in my opinion. But again, that's not for me to decide or any one of us individually to decide. That's why we have it, in my view; that is the process of our biennial budget. [LB669]

SENATOR BOLZ: I wish I shared your optimism. I'm not sure that we can sustain an \$85 million program over a significant amount of time. So thank you. [LB669]

SENATOR MELLO: Thank you, Senator Bolz. Are there any other questions from the committee? Seeing none, thank you, Senator McCoy. [LB669]

SENATOR McCOY: Thank you. [LB669]

SENATOR MELLO: We'll next go to Senator Pirsch for LB1086. Good afternoon. [LB1086]

SENATOR PIRSCH: Good afternoon, Chairman Mello, members of the Appropriations Committee. I am State Senator Pete Pirsch. For the record, that's P-i-r-s-c-h. I'm the sponsor of LB1086. The purpose of LB1086 is to double the annual amount of money the state of Nebraska provides in property tax relief over the next two years by transferring \$115 million from the Cash Reserve Fund to the Property Tax Credit Cash Fund in 2014, in December specifically, and another \$115 million in December of 2015. I appreciate, for the sake of, you know, time's sake, the consolidation of the related issues into one hearing. And so I know we've covered a lot of ground with respect to the overall concept with Senator McCoy's bill, but I do...would open myself up to questions if anybody had them. [LB1086]

SENATOR MELLO: Thank you, Senator Pirsch. Are there any other questions from the committee? Senator Conrad. [LB1086]

SENATOR CONRAD: Thank you, Senator Pirsch. Welcome to the Appropriations Committee. And I think you maybe had a chance to hear some of my commentary with Senator McCoy, so I wanted to ask you some clarifying questions as well. [LB1086]

SENATOR PIRSCH: Sure. [LB1086]

SENATOR CONRAD: How exactly did you decide upon the number proposed in your legislation? [LB1086]

SENATOR PIRSCH: Sure. So... [LB1086]

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SENATOR CONRAD: What's the policy basis? [LB1086]

SENATOR PIRSCH: Right. With respect to the policy basis, as we went around with the Tax Modernization commission (sic) around the state that clearly was property tax identified throughout the state. With respect to the amount, as touched upon a little bit earlier, and I have a little bit, you know, I'm going by remembrances. The numbers could be a little faulty, but you did ask, and so I had thought that I had spoken with Revenue Committee counsel with...and I was around in 2007 with Senator Wightman and Senator Harms and Senator Nelson here when we...and obviously yourself, Senator Conrad, in 2007, whereas, as part of a package, we created this cash...Property Tax Credit Cash Fund. And so the...essentially, as had been noted earlier, the valuation increases that have gone on since that creation in 2007 have eaten essentially a lot of the impact of that which we created in 2007. I think, and I'm going by memory here that...and could be wrong, but in 2007, given a, for instance, \$200,000 residential house, my remembrance was that it would have some impact around the...somewhere to the effect of \$188 on the bottom line. Now I'm...my memory and recollection is, in talking with Revenue Committee counsel, that it might be somewhere more on the order of \$124 worth of relief on the property tax. So you can see just in a short period of time, our service here, that the impact of that has diminished rapidly and so...and will continue as valuations continue. So if the purpose is, in fact, to respond to the people's concern about the role of property tax in their lives, then this is, I think, a meaningful way to catch up and even more so address that. I think that given the size of where our Cash Reserve is projected to be, keep in mind the first transfer would be December of...so the end of this year, and then the second would be in December of the next year. And I think given what our projections are now, given where our Cash Reserve is, I think that it's a very reasonable and very plausible number. [LB1086]

SENATOR CONRAD: And thank you, Senator Pirsch. And let's do talk about that sustainability issue, because I know that's something that this committee is very concerned about and every member of the Legislature is very concerned about because, of course, we don't operate in a vacuum and there's a lot of other moving parts that affect this conversation. And there's a variety of significant pieces of legislation pending before the Revenue Committee, as you know, that would greatly impact the General Fund and the Cash Reserve if those were put forward and adopted. So if some of those big ticket items, like Senator Harr's bill on income tax or otherwise come forward, does that affect the sustainability of your plan? [LB1086]

SENATOR PIRSCH: Well, I think that there is room to...nothing exists in a vacuum, and so we'll certainly, on the Revenue Committee, you know, as with every bill, you know, they advance packages and we have votes and the consensus determines what the direction is going to be. And so I do believe that there is room for meaningful tax relief, not just in this area but in other areas as well. And you know, to the dollar, I can't tell

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you what that means. I think that that's part and parcel of reaching a consensus with not just in the committee but also with, you know, with members on the floor. So I think that's the...I know that's what this Legislature will do. [LB1086]

SENATOR CONRAD: Very good. And you rightly noted, Senator Pirsch, that when the last significant tax package was put together there was a variety of different targeted approaches: increase in the earned income tax credit, peeling back the sales tax on construction labor, doing something on property taxes and a few other areas. So I hope if there is the appetite in the body for something like that this year, that it will be thoughtful and balanced moving forward. And then just the final piece, the same question I had to Senator McCoy. No matter how you perceive it, every dollar into this program is another dollar into the state budget. It increases state spending by, under your proposal, \$115 million a year. If you'd like a chance to respond to that, because I know that you've also on many occasions I think had a chance to advocate about your concern with increased state spending. So this seems to be a little bit in contradiction to that position. [LB1086]

SENATOR PIRSCH: Uh-huh. Well, and I thank you for that. I don't conceptualize this also as state spending. The source of all money that the government derives is from the people, and so as I conceptualize the money that we hold, it still in my mind remains the people's money. And so to the extent that we can articulate, there's a...you know, and the way that we gain control of that money is not necessarily voluntarily. Some divine value out of giving money to the government; others don't. But nonetheless, the government possesses the power to compulsory take money and I think, you know, attendant with that mighty power comes an obligation that we should be very careful in the manner in which we hold and spend their money for what we perceive to be the common good. And so with respect to the way that we're holding this, I think that if we're unable to articulate, because of the extent of the monies that we're holding in our Cash Reserve Fund, a clear and present need for those dollars, then I think to keep good faith with the taxpayers that we ought to take the monies that we feel are excessive and return those to where they came, with the people. And I think in so doing you increase the good faith and the understanding of the taxpayers that the government is responsive and that we are careful with their money. We do understand that it is their money that we're spending. And so to that extent, I don't conceptualize it as more spending. I conceptualize it as returning to the hands of from where it came, the people, the money that it came from. [LB1086]

SENATOR CONRAD: Very good, Senator Pirsch. And last question: I know there's others who are interested in weighing in, but in your mind what is an appropriate level for the Cash Reserve? [LB1086]

SENATOR PIRSCH: For the Cash Reserve I think that given what our current projections are now, and I think we're somewhere in the ball park projected to be in the

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near future at \$725 million. And that these withdrawals will come at...not now but at the end of 2014 and at the end of 2015, we could be dealing with, you know, and given those predictions, from what we know now, and that's a fluid dynamic type of situation, but we believe them to be reasonably good. I think that we may actually be ending up with millions more. And so I think that this is probably a very reasonable approach to start off over the next two years with giving this much back, \$115 million at the end of this year and \$115 million at the end of next year. So that's where my comfort level is, given my projections. And of course, you know, I'd be happy to entertain if there's some undisclosed information, drought, pestilence or things that were not...have not hitherto been on our radar but that are expected now, have been disclosed, then you know I'd be very interested in discovering that and working with the committee in determining what appropriate property tax relief is. [LB1086]

SENATOR CONRAD: Thank you. [LB1086]

SENATOR MELLO: Thank you, Senator Conrad. Senator Harms. [LB1086]

SENATOR HARMS: Thank you, Senator Mello. Senator Pirsch, thank you very much for coming. [LB1086]

SENATOR PIRSCH: Yes. [LB1086]

SENATOR HARMS: Senator Pirsch, your proposal would be taking \$230 million out in two years, correct? [LB1086]

SENATOR PIRSCH: Yeah, \$115 million per year for the next two years. [LB1086]

SENATOR HARMS: Yeah, but \$230 million... [LB1086]

SENATOR PIRSCH: Yes, \$230. [LB1086]

SENATOR HARMS: ...total at the end of two years. [LB1086]

SENATOR PIRSCH: Uh-huh. [LB1086]

SENATOR HARMS: My concern is not that I don't...you know, I was on the commission (sic) with you. I heard all the discussions and the concerns that people have with property tax. I don't disagree with where we want to go in this particular area, but what I'm more concerned about is where we're going to take the money from. [LB1086]

SENATOR PIRSCH: Uh-huh. [LB1086]

SENATOR HARMS: And I worry about that. I don't know if you paid any attention or not

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to what the economists are saying about the ag community next year. It could be as much down as between 20-25 percent. That's a big jump for us and that's where we get a lot of our money for the future. I guess we have to be really careful of how far and how deep you want to go into the Reserve. I think there are other options, other options like we have an awful lot of exemptions and, quite frankly, you could fund this \$230 million out of exemptions and that money would be there forever, I mean for a long period of time. But it takes courage to address the issue of exemptions, but we give an awful lot of money away. Secondly, I think there's another source and I still believe this and I don't think we've... [LB1086]

SENATOR PIRSCH: Uh-huh. [LB1086]

SENATOR HARMS: ...had time nor will we have time in a short session to truly address the issue of the public school funding formula. There's about 120 schools, somewhere around that, that get no state aid at all. And when we were out in rural Nebraska and we were talking to the farmers and the ranchers, they were saying, if you could just fix the formula because that's why our taxes are going up. I really believe that there are some other options and I really wish we could have a little more time to really explore the possibilities of adjusting the funding formula for the public schools. I'd rather put a little more money into that and help the 120-some schools, or whatever that amount is, lower their taxes to help people all across the board. I think we'd see a much better return. I can tell you now, through the exemption process, you would have an opportunity to keep that \$230 million in there for a long period of time, just not over a two-year period of time. I appreciate what you're doing and I like what we're attempting to do here, but that's my concern. It's not that I don't support property tax relief, because I heard the same thing you heard. The question is, how do we do it? And the question is, how can we afford to do it and where should we go to make this long term? I don't think, to be honest with you, just taking \$85 million or \$230 million out for a short period of time gives anybody any relief. I think people are wanting long-term relief. And Senator Bolz was correct when she said when she is going to be back here for the next couple years, you will be wrestling with that decision in here. Particularly if what the projections of the economists are saying about our ag community, if it does take that kind of a dip or drop, I think we're going to have some real serious problems and this committee is going to have to address that. And we have been down that road, as Senator Conrad will tell you and John Nelson will tell you, before so we know what the pain is when you go through that. So that's just all I'm saying and I appreciate what you're doing here. I think it's just a matter of how we find the right way to do this. That's what I'm struggling with. But thank you very much. [LB1086]

SENATOR MELLO: For the public record, Senator Jeremy Nordquist has joined the committee this afternoon. Senator Wightman. [LB1086]

SENATOR WIGHTMAN: Thank you. Thank you, Mr. Pirsch, for being with us here

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today. And I asked questions of Senator McCoy with regard to the bill or number of bills that would reduce the ag land valuation to...from 75 percent to 65 percent. You're familiar with those bills I think, are you not? [LB1086]

SENATOR PIRSCH: I am. [LB1086]

SENATOR WIGHTMAN: Do you think there's enough money to do that and reduce the property tax rate on ag land values and do particularly the amount you're talking about here? [LB1086]

SENATOR PIRSCH: Well, and so I believe that the approaches with respect to the...kind of a gradual reduction from 75 percent of valuation to 65 percent of valuation, fair market valuation, with respect to ag land valuation, those approaches, and I think that they differ somewhat over the amount of time, the number of years in which that is implemented, but I think that you can achieve a very responsible growth into that type of a valuation methodology over the passage of time and sort of grow your way into it, so to speak. I think it's possible, yes. [LB1086]

SENATOR WIGHTMAN: You think it's possible to do both but you might have to take the longer approach on the reduction on the property or on the ag land values? Is that your thought? [LB1086]

SENATOR PIRSCH: Well, I think, yes. So conceptually, I think both are possible. I do understand it. It's kind of a, you know, the committee work is done by consensus and by talking over and developing a comfort level to achieve that ultimate target. So that, you know, which explains for the number of...the differences among plans in terms of years to achieve it. But I do agree with, and I think Senator Harms touched upon it somewhat, that there are other problems out there that need to be looked at and including valuation methodologies. [LB1086]

SENATOR WIGHTMAN: Obviously, the best way of making the two maybe come together would be a reduction of \$115,000 (sic) annually, or certainly that's one way. [LB1086]

SENATOR PIRSCH: Yeah. Well, I do think it's possible to have some sort of a movement on both of these fronts and have them coalesce in a responsible fashion. [LB1086]

SENATOR WIGHTMAN: So you're not tied to the \$115,000 annually...\$115 million, excuse me. [LB1086]

SENATOR PIRSCH: Right. (Laugh) Yeah, \$115,000, yeah, I don't think... [LB1086]

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SENATOR WIGHTMAN: We can do \$115,000, I think. [LB1086]

SENATOR PIRSCH: ...we don't have any problem with that, yeah. Yeah. [LB1086]

SENATOR WIGHTMAN: Thank you. [LB1086]

SENATOR MELLO: Senator Nordquist. [LB1086]

SENATOR NORDQUIST: Thank you, Chairman Mello. And I apologize for being late. I had a committee hearing up in the Banking Committee. And this may have come up with the previous...on the previous bill or maybe to you, but my concern is...I certainly was with you at the Tax Modernization Committee. Nebraskans want property tax relief. That's absolutely no doubt about that. That was, by far, the number one thing they talked about, Nebraskans talked about, when they came before us this summer. But my concern with this program is if we have excessive funds, they are excessive income, sales tax, corporate tax, and miscellaneous tax funds that have come into our General Fund. Now we will distribute them this way, and a portion of those, we don't know exactly how much, I don't think anyone has a hard number on them, but a significant portion of those are going to go to out-of-state people who maybe did not contribute to that excessive income, sales, corporate, and miscellaneous tax amount. So that's the concern I have with taking those tax dollars. We want to return dollars to the taxpayers, but we're certainly not returning them to the same taxpayers that contributed to that excessive amount of tax revenue that we had. So can you just kind of address your thoughts on that concern? [LB1086]

SENATOR PIRSCH: Sure. And with respect to that issue, that, you know, first of all, I'm very open and amenable to working with this committee to fashion some sort of a bill that would come out and that would garner the support of a majority of this committee to come out. That being said, there are certain difficulties in being able to split that hair in the way that you would hope that that hair can be split. I think that that's what we, you know, that in 2007, when this was originally created, that this most closely executed what we were capable of being...of bringing forward with respect to achieving property tax relief. And so certainly I'm open, you know, in listening to any other suggestions if you have specific plans. You know, again, you know, I think that having a good analysis of who is paying in the taxes... [LB1086]

SENATOR NORDQUIST: Uh-huh. [LB1086]

SENATOR PIRSCH: ...and getting this back is vital, but I think that this is the plan that we went with in 2007. It's a plan that we're familiar with and I think on the whole it is largely getting into the hands of Nebraskans those property tax dollars. [LB1086]

SENATOR NORDQUIST: Uh-huh. Do you think it's some sort of form of redistribution

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though? [LB1086]

SENATOR PIRSCH: (Laugh) Do I think it's some sort of form of redistribution? Well, I think it's reflective of perhaps money then, if we are acknowledging we're giving back, you know, taxes that we collected that we tacitly thus admit we didn't need to begin with, I think perhaps the better way to do it is not just collect them in the beginning. So once you get them in our coffers, then we have the real-world problem of determining how we can most closely get them back into the hands of those who came. And that's never a good problem to have because it's extremely difficult. So I think that the solution is never...you know, I guess have lower rates to begin with. [LB1086]

SENATOR NORDQUIST: Thank you. [LB1086]

SENATOR MELLO: Any other questions from the committee? [LB1086]

SENATOR CONRAD: Thank you, Senator Pirsch, and just it made me think about this during your last commentary. But Governor Heineman has said that property taxes are uniquely a local issue and I think that there's a lot of truth to that. So do you disagree with his assessment? [LB1086]

SENATOR PIRSCH: And I'm sorry, there was a cough, but is uniquely a...? [LB1086]

SENATOR CONRAD: Local issue. [LB1086]

SENATOR PIRSCH: Oh, local issue. [LB1086]

SENATOR CONRAD: Not a state issue. [LB1086]

SENATOR PIRSCH: When it comes to property taxes. [LB1086]

SENATOR CONRAD: Yes. [LB1086]

SENATOR PIRSCH: I think from a high level that's probably true. The salvation, you know, on the side of this building it says the salvation of the state is watchfulness in its citizens, and I believe in that. And we do not, I agree, we do not on a state level impose property taxes. That's what our constitution imposes. [LB1086]

SENATOR CONRAD: Uh-huh. [LB1086]

SENATOR PIRSCH: That is left to local. And so we cannot, you know, exonerate the...you know, you have a duty as a citizen I think on the local level to be vigilant and monitor your local governments to make sure that, you know, that they're performing in the way that they're intended. But we're in a situation where, correct, we've collected

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income and sales tax to the extent...and other, corporate tax, etcetera, that to the extent that we cannot articulate a present use for them to the extent that they are now, in my opinion. And so we do, I think, still have an obligation to give that back as best we can approximate to those individuals who have paid in over that which we should have required. So we need to fashion the best remedy possible and, again, it's not going to be...I don't know if it's theoretically possible to, penny to penny, to emulate, you know, to return it in the manner in which it came in. And so we just have to do the best we can and so I think that's where we're at. [LB1086]

SENATOR CONRAD: Okay. [LB1086]

SENATOR MELLO: Senator Wightman. [LB1086]

SENATOR WIGHTMAN: Thank you. You talk about the \$715 million being...I think it would be correct to say that you think it's way too high. [LB1086]

SENATOR PIRSCH: \$725? [LB1086]

SENATOR WIGHTMAN: Or 25,... [LB1086]

SENATOR PIRSCH: Yeah. [LB1086]

SENATOR WIGHTMAN: ...whichever it is. [LB1086]

SENATOR PIRSCH: Well, I think that...keep in mind I think that in light of where I believe, in my heart and mind, the projections are for our economy and, you know, from what I understand about...you know, and we're a very ag-based economy and we've given where we believe things are going to be for this coming year, and then it becomes a little more hazy the next year out. But given all of those what we do know, which I don't see doom and gloom coming. You know, I don't think we'll have banner years but I think we'll do okay. And based upon those, which I think a majority or a consensus of who I've at least been speaking to who are out throughout Nebraska in the ag sector have been saying that, you know, probably be okay. This won't be a disastrous year. Based upon that, there is every reason to believe that the...over a two-year period, the last transfer out being December of 2015, just before 2016, that it is not irresponsible at all to go with this level of \$115 million for each year. And again, these are things that we implement and over the course of, you know, I won't be here, obviously, we won't be here in those years, and the Legislature is...has the capacity to change if there's some marked departure from projections, but you know we have to act on the best information we have and that's what this would suggest. I mean given that, this is, to me, very reasonable. [LB1086]

SENATOR WIGHTMAN: And I've heard some discussion on television and elsewhere

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that we may be very close to a recession, that we've gone I think six years. How much do you think of that \$725 million should be held back to cover a recession, because that's what it's covered in the past. [LB1086]

SENATOR PIRSCH: Well, and I'm trying to say, we came up with, if I'm not mistaken, maybe Senator Mello can help (inaudible) the exact figure, but I thought at the end of last year we found another \$35 million, was it, that was...was that \$35 million? Well, I can't ask a question here, but in any event there was a sum of tens of millions of dollars that were found. There's...what level would I be comfortable? I have every belief that even after this is done, by the year 2016 is reached, that we'll, you know, we'll be north of...and maybe considerably north of \$500 million. [LB1086]

SENATOR WIGHTMAN: Thank you. [LB1086]

SENATOR MELLO: Any other questions from the committee? I think maybe more of a couple point of clarification, Senator Pirsch. I think you're referring to last year the Forecasting Board met in April where they increased revenue projections by about \$52 million, in which the Legislature, upon the advice of this committee, transferred that to the Cash Reserve. Looking at Senator McCoy's LB669 and your bill, LB1086, and Senator Davis' bill, which will be heard next, all three do similar things but they do it differently. Senator McCoy's testimony was an \$85 million one-time transfer. Yours is different than his and Senator Davis' in that you do a multiyear transfer out of the Cash Reserve. And the question kind of was asked I think by a number of people, but... [LB1086]

SENATOR PIRSCH: Uh-huh. [LB1086]

SENATOR MELLO: ...you essentially would take the Cash Reserve below \$500 million, which is significantly lower than where it was back in 2008-2009, when we started the Great Recession. Are you nervous about making that decision for the next biennium this current year in regards to already trying to appropriate that money without knowing where the economy may or may not be at, in the sense that our current revenue projections for the next biennium is projected to be at roughly 5.3 percent annual/biennial growth? And roughly, the state spending is about 4.6 percent, which means right now we have essentially a balanced budget for the next biennium, assuming revenues are coming in at a significantly higher percentage. Are you nervous at all about trying to take money and spend it on this particular case right now, not knowing where revenues may not...may be in the next couple of years? [LB1086]

SENATOR PIRSCH: Uh-huh. Well, and I appreciate the question. First of all, I think, given...and this...everybody has their own outlook and we're all elected by our electorate to bring our, you know, viewpoints down here and to...but I don't think even with this that it's going to get below \$500 million. So I don't know that I accept that premise, as you

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said, below \$500 million. And so I guess that's, you know, am I nervous? No. I think that, you know, at the same time that we are doing this, we don't live in a static environment where we're a slave to just this, these type of motion. I think that we should and we need to do other things which is including become more efficient, look at our spending practices and weeding out, you know, marginal spending. And certainly if we had a routine, institutionalized practice, I think that that would help over the course of time to save significant amounts. And there's other suggestions we could take as well. But I don't stipulate to the fact that it would necessarily put us below \$500 million. I think that from the information that I've been receiving, I think that we'll be, you know, having acceptable years in the next two years, and that's the time frame in which this will be occurring. [LB1086]

SENATOR MELLO: If there's any additional information you're receiving that I would say this committee or the Fiscal Office is not receiving, we sure would like to hear that for our... [LB1086]

SENATOR PIRSCH: (Laugh) [LB1086]

SENATOR MELLO: ...for the Legislative Fiscal Office's state statutory obligation to provide us revenue projections in conjunction with the Forecasting Board and the Department of Revenue. So with that, any other questions from the committee? Seeing none, thank you, Senator Pirsch. [LB1086]

SENATOR PIRSCH: Thank you. [LB1086]

SENATOR MELLO: Next we'll hear from Senator Davis for LB1094. [LB1094]

SENATOR DAVIS: Good afternoon, Chairman Mello, members of the Appropriations Committee. I am Al Davis, A-I D-a-v-i-s, and I represent the 43rd Legislative District. Today I am introducing LB1094. This bill would increase the appropriation for the Property Tax Credit Cash Fund by \$25 million. This increase would give added property tax relief to our taxpayers this year. Legislators have struggled with the subject of property tax relief for years. The Tax Modernization Committee heard from taxpayers throughout the state that property tax relief is their greatest concern. The Property Tax Credit Act of 2007 is one way Nebraska offers property tax relief to its taxpayers. The act allocated \$105 million for property tax relief in 2007, \$115 million in 2008, and then left it up to future Legislatures to decide the amount to appropriate for this purpose. The current appropriation is \$113 million. In 2007, when \$105 million was appropriated, the state's total tax receipts were \$3.8 billion. The next year, when \$115 million was appropriated, total tax receipts were \$3.9 billion. Last October's report from the revenue Forecasting Board predicted receipts for the fiscal year of \$4.1 billion. This is a \$221 million increase in revenue compared to 2008, yet the current appropriation for property tax relief is actually \$2 million less than was provided back in 2008. LB1094 would

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return more of the additional tax dollars to our citizens in the form of much needed property tax relief. And I'd be happy to answer any questions. [LB1094]

SENATOR MELLO: Thank you, Senator Davis. Are there any questions from the committee? Senator Nelson. [LB1094]

SENATOR NELSON: Thank you, Senator Mello. Thank you, Senator Davis. In comparison with the other two bills, you're an absolute piker here with \$25 million. (Laughter) [LB1094]

SENATOR DAVIS: I feel like a flea on an elephant. [LB1094]

SENATOR NELSON: All right. (Laugh) But it's a modest step in the right direction. You feel comfortable that, in light of our economy, that \$25 million would...increase in the credit would be of help. [LB1094]

SENATOR DAVIS: I think it's reasonable. I think it's sustainable. Obviously, it allocates that amount of money and puts that into legislation, but the Appropriations Committee could change that in the future if they needed to so it wouldn't be a big deal and require another hearing. But in light of the revenue that you have, I think this is a sustainable thing, at least for the next few years, and I don't think it's going to break the bank. It's not going to cut programs that we need to provide here at the state. The last thing I want to do is get the state of Nebraska to the point where we don't have money to pay our own bills. [LB1094]

SENATOR NELSON: Senator Wightman remarked we might...we know that we are going to have a downturn in farm income over the next couple years. Do you think you've accommodated that if we do, a possible decrease in our state revenue? [LB1094]

SENATOR DAVIS: You know, if we have a worst-case scenario, you've been through that, Senator Nelson. You were here in the recession of 2008 and you know how hard that can be. But this isn't \$200 million. It's not \$100 million. It's \$25 million. It's a modest step but it does say to the taxpayers of Nebraska we're doing the right thing, we're trying to; we recognize the problem and we're willing to help you with that. Someone asked a question of Senator Pirsch a few minutes ago about...I think it was Senator Conrad about how property taxes are a local issue, and I just wanted to address that. Yes, they are in many respects, except if you go to some of the NRDs you'll find that they are imposing occupation taxes to deal with water issues that are really state mandates. School districts have to deal with accreditation issues that come down from the state, rules and regulations that we impose on our local taxing entities. So this is one way that we can help our taxpayers and say, yes, we recognize that we do impose some burdens on you. [LB1094]

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SENATOR NELSON: Thank you. [LB1094]

SENATOR MELLO: Any other questions from the committee? Senator Bolz. [LB1094]

SENATOR BOLZ: Good afternoon, Senator Davis. [LB1094]

SENATOR DAVIS: I thought I was going to get off easy here. [LB1094]

SENATOR BOLZ: (Laugh) Senator, I know that you serve on the Education Committee. I respect that service greatly and don't envy the hard work that you do on that committee. But I am very aware of the fact that property taxes rise when state aid does not. And I think without really thoughtful savings, we could get ourselves in a position where we're facing a double-whammy when we don't have enough state aid during difficult economic times and we put schools and school districts in a very difficult position. I just wondered if you could speak to that and speak to why you think that this strategy works now versus saving for a rainy day, particularly for educational purposes. [LB1094]

SENATOR DAVIS: Funding...I think we need to go back and look at the original legislation back in 1990, I believe it was, which was called the tax equalization and equity formula. And one of the things that they were really trying to do at that time by allocating a lot more revenue for state aid to education was they were trying to deal with property tax issues which were big problems across the state and an unequalized situation in terms of the resources that were available for a district versus a different, a wealthy versus a nonwealthy district. So the formula has morphed over the years, and where we are today with the formula, and you were on the Tax Modernization tour and you know that in rural Nebraska that's where you heard the biggest argument for property tax relief and the biggest complaints. We've had something that's occurred in the last few years that didn't ever occur before, which was increasing ag valuation, declining residential values, so that really shifted the equalization formula in a negative way for rural Nebraska. If, as Senator Wightman and some of these senators have stated, we're starting to return to a more normal situation where farm ground isn't going to creep up and we're going to have declining profits on the ranch and farm, then we're going to have a lot more hardship there, which is why I think this is important. But TEEOSA is an ongoing problem. I'd like to see something done where everybody will reallocate a certain amount of revenue for every school, not a significant amount but something that says we do care about what you do. But I think it's going to have to be done outside the formula as it is. [LB1094]

SENATOR BOLZ: Thank you, Senator Davis. [LB1094]

SENATOR MELLO: Any other questions from the committee? [LB1094]

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SENATOR DAVIS: Can I just address one more thing that... [LB1094]

SENATOR MELLO: Absolutely. [LB1094]

SENATOR DAVIS: ...Senator Nordquist said? I've talked to Senator Schumacher a little bit and some other people about how you can keep property tax dollars in the state, in talking about the rebate and how it goes to other people. You did make a statement, Senator, that people don't pay income and sales tax, and that isn't necessarily true. If you're buying a ranch and you decide you need to improve it, you're probably going to get most of your materials at a local place and they're going to...the economy is going to gain from that. And then revenue that comes off a farm is subject to Nebraska income tax too. [LB1094]

SENATOR MELLO: See no further questions. Thank you, Senator Davis. [LB1094]

SENATOR DAVIS: Thank you. [LB1094]

SENATOR MELLO: The committee will take proponents for all three bills: LB669, LB1086, and LB1094. [LB669 LB1086 LB1094]

KRISTEN HASSEBROOK: (Exhibit 1) Good afternoon, Chairman Mello, members of the Appropriations Committee. My name is Kristen Hassebrook, that's K-r-i-s-t-e-n H-a-s-s-e-b-r-o-o-k, and I'm a lobbyist with the Nebraska Cattlemen's Association. I'm here today to offer not only our association's support but several others' support for all three of the bills here today. In an attempt to consolidate testimony, you can consider this support testimony from the Nebraska Corn Growers Association, the Nebraska Farm Bureau, the Nebraska Pork Producers, the Nebraska Sorghum Growers, the Nebraska Soybean Association, and the Nebraska Wheat Growers. I'd like to share with you just more of a testimony on the vehicle of the Property Tax Credit Cash Fund in terms of why our organizations view it as an ideal option in terms of returning some property tax relief back to Nebraskans. As you've heard, it's direct and immediate. It benefits everyone, not just ag landowners but also residential landowners, which we heard in the Tax Modernization Committee hearings across the board. It wasn't just ag landowners who felt their property taxes were too high. And it's based on an equitable distribution based on the valuation of your property. And so it's not just, you know, \$1 per person or anything of that sort. It is based on more of an equitable distribution. And so we offer our support for all three of the bills. We know that there are some differences. And I'd be happy to answer any questions. [LB669 LB1086 LB1094]

SENATOR MELLO: Thank you for your short and abbreviated and concise testimony. Are there any questions from the committee? Seeing none, thank you. [LB669 LB1086 LB1094]

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KRISTEN HASSEBROOK: Thank you so much. [LB669 LB1086 LB1094]

SENATOR MELLO: We will take further proponents for LB669, LB1086, and LB1094. [LB669 LB1086 LB1094]

HARVEY SANKEY: My name is Harvey Sankey, H-a-r-v-e-y S-a-n-k-e-y. I represent the Nebraska Taxpayers for Freedom, and we are in favor of this increase in the annual rebate through the state's Property Tax Credit Program. Okay? Just to give you some statistics here, this is from the Tax Foundation. Maybe all of you have heard this already, but as taxes as a percent of home value, and the median home value I'm talking about, Nebraska ranks in the top ten. And that's not a good top ten, okay? That's high. Back in 2009, they were ranked number five, okay? And that's a 1.76 percent of your median home value here in Nebraska. I moved here in Nebraska, and I'm glad I did, 19 years ago, and I came from a state called Massachusetts, otherwise known as "Taxachusetts." And then I looked at this value...I looked at all the values in here. Massachusetts was ranked 21, 1.04 percent compared to 1.76 percent. I couldn't believe it. Now the cost of living here is a lot lower, prices are a lot lower here. But I couldn't believe that the taxes on your property values were that much higher. All right. We've heard from people, and I attended a lot of these hearings, a couple of them, for the Tax Modernization Committee, and most of the people spoke about a relief in property taxes. That's what they are all concerned with. Every one of the people in your districts, okay, are concerned with property tax relief. I think this is a good way to tell the people in your district, your constituents, that you heard what they had to say. Okay? I understand property taxes are a local issue, okay, that's up to the local people to take care of that, cut their spending and do what they have to do, but I think the state needs to do something also, and that was loud and clear at these hearings. That's why these people went to these hearings, to ask the state to do something. Now there are going to be a lot of other possible reliefs, inheritance tax, Social Security tax, military retirement pay tax, ag land revaluation. Now they affect only, the inheritance tax, that only affects a person who's dead. Social Security only affects the person who's getting Social Security taxes. Military retirement pay only helps the person who's getting retirement pay from the military; ag land, the farmer. Property tax relief affects everybody, all right? I don't know if much is going to come out of any of these other bills in here, it may or may not. I don't think anything on the individual or corporate income tax bills are going to make any headway into reducing taxes at all. If anything, they may be revenue neutral, especially the income tax. They may change brackets around, so on, so forth. But I think property tax will help everybody in this state and that's what they want. A little bit help...a little help from the state is what we need. They asked for that. I think it's up to you guys, girls, women to give it to them. They want it. That's all I have to say. Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Thank you for your testimony today, Harvey. Are there any

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questions from the committee? Senator Wightman. [LB669 LB1086 LB1094]

SENATOR WIGHTMAN: Thank you, Mr. Chairman. Thank you for being here, Mr. Sankey. Sometimes I wonder if the reason you hear more about property tax than any other is that...and you can give me your thoughts on this, is that you pay it all in two times. If you took your sales tax and divided it up and you only paid it twice, I wonder if there wouldn't be a bigger cry about sales tax as well. And I think it's also true with regard to income tax and how a lot of them, particularly out in our area, a lot of ag people do just pay one time on state income tax and on federal income tax. But don't you think that has a lot to do with why you hear the cry from property tax people is that it's paid in kind of a lump sum or two lump sums? [LB669 LB1086 LB1094]

HARVEY SANKEY: I would agree to that, but I also say that if you look at those taxes--sales tax, individual income tax, corporate taxes--we're somewhat in line with what the other states are charging, okay; however, not in property taxes, we're not in line. [LB669 LB1086 LB1094]

SENATOR WIGHTMAN: And I think that's true as well. Okay. That's my only question. [LB669 LB1086 LB1094]

SENATOR HARMS: Do we have any other questions? [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Thank you. Do you think there's a correlation between us being in the top ten, top five historically on property taxes, and being in the bottom five for state support to K-12 education? [LB669 LB1086 LB1094]

HARVEY SANKEY: I think that a lot of that has to do with the local communities for property taxes that they raise for education in their local communities. I agree we should have some...give them some relief for education also. I'm not saying we shouldn't, okay? [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Uh-huh. [LB669 LB1086 LB1094]

HARVEY SANKEY: What that amount is, is up to the Legislatures here, okay? That's up to you guys what you want to do. I think that...well, that's all I have to say for now. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Thank you. [LB669 LB1086 LB1094]

SENATOR HARMS: Thank you, Senator Nordquist. Do we have any other questions? Seeing none, thank you very much for your testimony. [LB669 LB1086 LB1094]

HARVEY SANKEY: Thank you. [LB669 LB1086 LB1094]

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SENATOR HARMS: (See also Exhibit 2) Do we have any other proponents? Seeing none, do we have any...well, before I go on I want to let you know that we do have support from Robert Hallstrom from the NFIB supporting these bills that we've been hearing today, so show that the record shows that. Do we have any opponents? Welcome. [LB669 LB1086 LB1094]

RENEE FRY: (Exhibit 3) Thank you, Senator Harms, and good afternoon again. My name is Renee Fry and I'm the executive director of OpenSky Policy Institute. That's R-e-n-e-e F-r-y. We are testifying today in opposition to LB1086 and LB669. I am not speaking to Senator Davis' bill today. I'd be happy to answer questions but we are not. We are opposing those two bills as we don't believe now is the time to significantly draw down the state's Cash Reserve. In the recession that hit in the early 2000s, Nebraska's Cash Reserve was smaller than 7 percent of the General Fund, which forced the Legislature to raise taxes. Some \$260 million in new annual taxes were raised, which would be equivalent to about \$389 million today. During the most recent recession, Nebraska was aided greatly by a strong Cash Reserve of \$578 million, or about 17 percent of the General Fund budget. Our research shows, however, that without the federal stimulus dollars we would have needed a Cash Reserve of nearly \$792 million, or 24 percent of the General Fund budget to get through the recession as we did. With the stimulus funds we were able to weather the recession without raising taxes, but the Legislature still had to make significant cuts in state aid to education and support for cities and counties, for example. In fact, funding for K-12 education hit a historically low level in FY '13 as a share of the economy, and remains well below historical funding levels. And without much chance of federal assistance to help us in the next recession, a strong Cash Reserve is that much more critical. To help prevent tax increases and cuts to education, roads, and other vital services, the Government Finance Officers Association recommends governments keep a minimum balance equivalent to at least two months or 16.7 percent of their General Funds in Cash Reserve. The Nebraska Legislative Fiscal Office recommends a minimum balance of about 16 percent of annual net receipts, because they found when revenues fall short of projections it tends to be by about 4 percent per year for periods of about four years. To keep within these parameters, LFO suggests that the state should have a balance of at least \$643 million in its Cash Reserve at the end of the current fiscal year and about \$702 million based on the average forecast for the next biennium. This is a recommendation we strongly support. Both LB1086 and LB669 would bring our Cash Reserve, which is presently at \$679 million or right at 16.7 percent of the General Fund, below recommended levels. The \$230 million that LB1086 would take from our Cash Reserve would draw the rainy day fund down to about 11 percent of the General Fund. LB669's \$85 million withdrawal would bring the Reserve to about 15 percent of the General Fund. Part of what has sparked calls to use Cash Reserve Funds for tax cuts was the one-time revenue bump that Nebraska and many other states experienced in late 2012 and early 2013 due to fiscal cliff fears. At the time, the Rockefeller Institute said that the revenue surge may

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have been borrowed from future revenues. The institute reexamined the issue in December and found that, indeed, revenue growth had not sustained the momentum it had earlier in the year. For example, here in Nebraska, year-over-year revenue growth slowed sharply from 18.6 percent in the second quarter of 2013 to 5.1 percent in the third quarter. Rockefeller said it didn't believe the revenue slowdown marked a new downturn in the economy but, rather, a return to the sluggish revenue growth that existed before the fiscal cliff surge. This, too, has held true in Nebraska as third quarter growth was slightly below the national average of 6.1 percent and more in line with Nebraska's 2012 growth of 5.2 percent. In a recent report, the Pew Charitable Trust warned states to be concerned about revenue volatility, noting that unexpected high revenue may just as easily be followed by years of unanticipated low revenue. The Pew said policymakers must be cautious about misinterpreting positive revenue upticks as a lasting trend. And while it's common for lawmakers to be pressured to make tax cuts when sudden windfalls occur, the Pew said such budget choices could lead to problems. We are very sympathetic to the calls from Nebraskans to lower property taxes and we also appreciate that LB669 and LB1086 call for one-time Cash Reserve transfers which are more fiscally responsible than using the Cash Reserves for ongoing expenditures, such as permanent tax cuts. However, to the extent that the Cash Reserve rises to a point well above recommended levels, we think that one-time investments in venture capital and job training would do more to strengthen our economy. Finally, we want to emphasize again that we think it vitally important that the state heed the Legislative Fiscal Office's recommendation that the Cash Reserve not be drawn down below 16 percent of revenues while our economy is strong. Our Cash Reserve needs to be at least that size to deal with the rainy days that are sure to come. Thank you for your time. I'd be happy to answer any questions and I can speak to Senator Conrad's question about what the bills...how much money would go back to homeowners. [LB669 LB1086 LB1094]

SENATOR MELLO: Thank you for your testimony, Renee. Are there any questions from the committee? Senator Conrad. [LB669 LB1086 LB1094]

SENATOR CONRAD: Thank you, Renee. Well, let's just start there. [LB669 LB1086 LB1094]

RENEE FRY: Yes. [LB669 LB1086 LB1094]

SENATOR CONRAD: If you have those figures, I think it would just provide some context for the committee about what we're talking about. [LB669 LB1086 LB1094]

RENEE FRY: Yeah, I do. [LB669 LB1086 LB1094]

SENATOR CONRAD: So that would be helpful. [LB669 LB1086 LB1094]

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RENEE FRY: So LB669...for an average house in Nebraska is \$116,000. LB669 would provide an additional credit of \$57. LB1086 would provide an additional annual credit of \$77. And Senator Davis' bill would provide an additional credit of \$17. For a \$150,000 house, those numbers would be \$73.14 for LB669, \$98.95 for LB1086, and \$21.51 for LB1094. [LB669 LB1086 LB1094]

SENATOR CONRAD: Thank you. I appreciate your analysis and providing that illustration. Just to the point of clarification, because I wasn't maybe understanding the first part of your testimony, why is OpenSky taking a neutral or not taking a position on Senator Davis' bill? [LB669 LB1086 LB1094]

RENEE FRY: So we're not taking a position on his bill because it is feasible or theoretical that within forecasts done February 28, if the forecast is bumped up and we end up having additional revenues forecast that would bump up the Cash Reserve, it is conceivable that we would have about \$25 million over the minimum recommended levels in the Cash Reserve, which is why we're not taking a position. Again, if we were taking a position, I mean what we would say is that we do believe that there are probably other investments that are more important, but we have talked regularly about the importance of addressing property tax, the property tax issue in Nebraska. So we're very cognizant of the issue. It does need to be addressed. But we're concerned about using Cash Funds and needs to be a very measured approach. [LB669 LB1086 LB1094]

SENATOR CONRAD: So it's the number and then also the kind of competition with other state obligations. [LB669 LB1086 LB1094]

RENEE FRY: Yes. Correct. [LB669 LB1086 LB1094]

SENATOR CONRAD: So it's both those tracks. [LB669 LB1086 LB1094]

RENEE FRY: Right. [LB669 LB1086 LB1094]

SENATOR CONRAD: Okay. I understand. And on that very track, I've had a variety of constituents express concerns about the property tax program and how it was implemented and what it means for most families in Nebraska. And in particular during the economic downturn, when we were in a free fall and making incredibly painful decisions on this committee about nutrition and education and public safety and everything that the state is charged with, and some really see that these efforts, these three bills today, are doubling down on bad policy and that rather than continuing to move forward we should really take another look at whether or not the property tax credit program is good policy at all. And I wanted to give you an opportunity to address that if you'd like. [LB669 LB1086 LB1094]

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RENEE FRY: Yes. I couldn't agree more. We couldn't agree more. We don't like the mechanism of the property tax credit program; would much prefer to see it look like a circuit breaker. Again, we do believe that there is an issue that we need to address but that we do have limited resources and those should be targeted to people who need them the most. And so I know that there have been discussions about the constitutionality of a circuit breaker and I'm hoping that we can discuss it...settle that once and for all and figure out whether a circuit breaker is a feasible mechanism. But that would be our preferred choice for property tax relief, absolutely. [LB669 LB1086 LB1094]

SENATOR CONRAD: Very good. And to be clear, that criticism that my office has received has come across the political spectrum where fiscal conservatives are very concerned about the fact that this is a spending program and folks on the other end of the spectrum are concerned about the diversion away from other state resources. So I think that, as is the case with politics, sometimes there's politics involved and it's not always the best policy. The final piece I want to mention to you is that we've heard a lot this session, we've heard some today in this committee about different studies and what certain findings say about Nebraska and how we rank in terms of being competitive with other states. And I think that's helpful. I think that's one piece of the puzzle that we need to be thoughtful about. But another piece of the puzzle that I haven't heard a lot of people talk about is a statistic that I think Nebraskans should be universally very proud of. We were recently ranked by at least one think tank as the state that's in the best position to meet our fiscal obligations moving forward; that we're the most fiscally responsible, we're the most fiscally sound. We're really positioned above all of our peers to meet future challenges. And I'm concerned that's getting left out of the debate and I'm concerned that some of these radical cuts or shifts or spends will impact our ability to retain that ranking. So I'd like to give you a chance to respond on that if you'd like. [LB669 LB1086 LB1094]

RENEE FRY: Yeah, you're absolutely right. The Nebraska Legislature, you all have done a fantastic job to make sure that we are in a good position for the future. I will tell you that I was startled to realize that without the federal stimulus we would have needed a Cash Reserve of 24 percent. It's a scary number. And that number doesn't address the hundreds of millions of dollars that you all had to cut as well. And so if we had stayed flat, it would have been significantly more than that. So...but, you know, that was the prudent course and so I applaud you for your efforts during that difficult time. But I think you're absolutely right. We need to learn from those lessons and make sure that we continue to follow on that path of, you know, fiscal responsibility and making sure that we don't set ourselves up to fall short. Because there will be another downturn; it's just a matter of when. [LB669 LB1086 LB1094]

SENATOR CONRAD: That's economics. [LB669 LB1086 LB1094]

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RENEE FRY: Yes. [LB669 LB1086 LB1094]

SENATOR CONRAD: Yeah. And what I've heard from school districts, constituents, taxpayers, what have you, business owners in my district is that very volatility issue that they're concerned about, that we're kind of boom and bust in terms of the economy where we're out wildly cutting taxes and then on the flip side dramatically cutting programs and services. And then we just kind of have amnesia and go back to the same effort. And so in terms of planning for business growth, family issues, school, strategic needs, having a kind of a level sense about what state revenues and obligations might be is just incredibly beneficial to everyone. [LB669 LB1086 LB1094]

RENEE FRY: Right, and that's what the Pew...the recent Pew report really focused on is how to prepare for that volatility, because it's a reality. And a strong Cash Reserve was one of the primary tools for addressing that volatility. I don't know if you can see this and I don't have multiple copies, but this is state aid funding. To your point, it's up and down and up and down. And we used...we've used this chart, including on one of Senator Bolz's...one of her bills. It's definitely an issue, but that strong Cash Reserve is a key component to really provide some stability when we have inevitable volatility. [LB669 LB1086 LB1094]

SENATOR CONRAD: Very good. Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Bolz. [LB669 LB1086 LB1094]

SENATOR BOLZ: Good afternoon. Just on that question of volatility, our friend and colleague, Senator Schumacher, likes to remind us that if we miss our revenue projections even by a couple of points we could be in a very difficult position. And I just wondered if, given your expertise, you could speak to how often that occurs, what happens to states when revenue projections don't meet the optimistic expectations that we've heard this afternoon. [LB669 LB1086 LB1094]

RENEE FRY: Yeah. No, it's definitely a concern, and I mentioned in my testimony the Legislative Fiscal Office has looked and the periods tend to run in about four years. And so you do have about four years of growth followed by four years of shortfalls, and that's pretty standard. That's what they found, which is why they have that recommended level of 16 percent minimum for the Cash Reserve. So I think maybe the one thing to count on is that we know it's going to be volatile, right? And so there's some consistency in knowing that that volatility is going to be there. Senator Schumacher is absolutely right. The forecasts are pretty good but, you know, Senator Harms has brought up agriculture. You know, it's really unclear. I know NCSL has indicated that state forecasts are looking like they're going to be lower over the next couple of years. There have been several reports saying that we're likely to experience slower growth than we did in 2012. And so we really need to pay very, very close attention to that and not be overly optimistic

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because it does put schools and other really vital services in jeopardy. [LB669 LB1086 LB1094]

SENATOR BOLZ: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Nordquist. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Thank you, Mr. Chairman, and thank you, Renee. At \$725 million, do you know what percent that would put us at in our state budget? [LB669 LB1086 LB1094]

RENEE FRY: \$725. I do. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: That's all right. [LB669 LB1086 LB1094]

RENEE FRY: I do, excuse me. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: But would we be above the level that we were going into the recession? [LB669 LB1086 LB1094]

RENEE FRY: Yeah. We would be slightly... [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Okay. [LB669 LB1086 LB1094]

RENEE FRY: ...slightly above. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: All right. [LB669 LB1086 LB1094]

RENEE FRY: We're currently at \$679, we're at 16.7 percent. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Okay. Okay. [LB669 LB1086 LB1094]

RENEE FRY: I thought I had it here but I'm having trouble locating it. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: So we'd be roughly right now about, with \$679, about where we were going into the recession. [LB669 LB1086 LB1094]

RENEE FRY: Yes. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: But that was we received... [LB669 LB1086 LB1094]

RENEE FRY: Slightly less. [LB669 LB1086 LB1094]

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SENATOR NORDQUIST: ...where we received over \$200 million of federal stimulus that went in directly... [LB669 LB1086 LB1094]

RENEE FRY: We actually, in fiscal year '10 and '11, we actually used \$532 million worth of federal stimulus... [LB669 LB1086 LB1094]

SENATOR NORDQUIST: All right. Right. [LB669 LB1086 LB1094]

RENEE FRY: ...in addition to using \$259 million of Cash Reserve. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: I think that's a critical point to make, because I've heard time and time again, well, we're at record levels in our Cash Reserve and we were at a lower level when we went into the last recession. Well, as somebody called it lately, the federal government, "Uncle Sugar" is not going to hand out a whole bunch of cash to us again in the next recession. [LB669 LB1086 LB1094]

RENEE FRY: Right. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: I think we can all agree that that's going to happen. And the cuts that we made last time we eliminated some health programs, we eliminated state aid to cities, counties. Those aren't dollars that we can go back and eliminate a second time. They're gone. [LB669 LB1086 LB1094]

RENEE FRY: Right. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: So the cuts that we make in the future if...we know we're not going to get federal dollars, if we don't have sufficient resources in our Cash Reserve, the cuts are going to be much more severe and Nebraskans are going to feel it much more boldly than they did in the last... [LB669 LB1086 LB1094]

RENEE FRY: No, that's absolutely...that's absolutely right. And according to the LFO budget document in FY '10 and '11, there were spending reductions of almost \$342 million. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Right. Right. [LB669 LB1086 LB1094]

RENEE FRY: So you're absolutely right, we are starting at a lower level. The other thing that I would point out is the projections are that that \$725 million stay in the Cash Reserve in the next biennium as well, and so then that percentage is reduced, right? [LB669 LB1086 LB1094]

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SENATOR NORDQUIST: That's exactly right. [LB669 LB1086 LB1094]

RENEE FRY: So it will no longer be at that 16.7 percent or 17 percent and will be reduced as a share of the budget. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Right. That's right. Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Kintner. [LB669 LB1086 LB1094]

SENATOR KINTNER: Hello, Renee. [LB669 LB1086 LB1094]

RENEE FRY: Hello. [LB669 LB1086 LB1094]

SENATOR KINTNER: Somehow I'm not surprised you're here. When there's a tax cut, you're going to come testify against it. But that's okay. There's going to be projected \$725 million sitting in the Cash Reserve Fund. Whose money is that? [LB669 LB1086 LB1094]

RENEE FRY: It's Nebraska taxpayers. [LB669 LB1086 LB1094]

SENATOR KINTNER: Ah, Nebraska taxpayers. Okay. [LB669 LB1086 LB1094]

RENEE FRY: Yeah. [LB669 LB1086 LB1094]

SENATOR KINTNER: If it's Nebraska taxpayers and they've given all this money, don't you think we have an obligation to give it back? We've taken too much money. [LB669 LB1086 LB1094]

RENEE FRY: Yeah, but the problem is we haven't taken too much money. In fact, we don't have as much money as we would need to weather a recession of a similar size. And so the issue that we need to be concerned about and, you know, we've been talking about property taxes quite a bit, and in large part we've seen those property taxes go up because we've seen cuts to state aid. We've cut state aid for cities and counties, and we've cut state aid for schools. And as a result, cities and counties and schools have become more reliant on property taxes, right? So I think that...and we're 49th in the country in terms of the state aid, in terms of the percentage of K-12 that's funded by the state. We're 43rd in the country in terms of the percentage of city and county budgets that are provided by the state, very low in state aid, and that impacts our property tax levels. So I would not say that it is primarily it is a local issue. And when we're talking about having a minimum amount in the Cash Reserve, that's fiscal responsibility to make sure that we can provide and educate our children during the next downturn and we don't have to resort to significant cuts or to transferring to other taxes. [LB669 LB1086 LB1094]

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SENATOR KINTNER: I see an arrogance. I see a taxpayer wallet and people in this Legislature have their hand on it and they won't let go. They can't possibly let go because they think they have a birthright to this money. And there's an argument here and there's a disagreement as to who owns this money really. Is it the Legislature's money? Do we have ownership or do we have stewardship? I think we have stewardship. There's people in this Legislature that think they have ownership. If you look at our budget over the last ten years, let's say, and probably should get a pretty good look at, what has held spending down? Has anything held spending down at all in the last ten years? Can you point to anything that's held spending down? [LB669 LB1086 LB1094]

RENEE FRY: Spending. Over the last ten years spending at the state level has actually... [LB669 LB1086 LB1094]

SENATOR KINTNER: Yeah. Yeah, or spending in the state, yes. [LB669 LB1086 LB1094]

RENEE FRY: ...as a share of the economy has actually fallen considerably in today's dollars to the tune of about \$500 million. So state spending has dropped pretty significantly. Spending at the local level has stayed fairly flat over those same ten years. And so we are spending a lot less. In fact, we are 33rd, 33rd in the country in terms of state and local spending as a percentage of personal income, and we're 29th in spending per capita. So we are on the bottom half in terms of spending levels. So I do think that the Legislature has done a good job about balancing the needs that we have to build roads and provide education for our children and without overburdening the taxpayer. [LB669 LB1086 LB1094]

SENATOR KINTNER: Well, the roads are on automatic pilot. We have LB84. We have gas taxes. That's not something we appropriate. It's on automatic pilot. So you can't pat us on the back for funding roads. It's automatically going to happen. I think the correct answer would be the only thing that's held down spending is bad economic times. If we have money, we're going to spend it. I mean it's irresistible the urge to spend money in this body and we just haven't been able to find a way to curb it other than when times get tough. Now I think that's the right answer as to how we've been able to hold down spending at all. Otherwise, if there's money there, we just spend it. I mean we spent it all last session, every...almost all the money that came in we spent it. Doesn't that concern you, that level of spending? [LB669 LB1086 LB1094]

RENEE FRY: Well, okay, so I will say that last year was unique in terms of we were coming out of a recession. And so the percentage of increases may have been higher than they were because we're trying to compensate from several years of cuts. I will say, too, that the time that I've been in this job, times that I was outside the Legislature

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but doing work with the Legislature, and when I was legal counsel here at the Legislature I felt like there was always...I never felt like lawmakers were grabbing at dollars and spending every dollar that they could. I felt like it was always an appropriate balance in terms of providing for the needs of the state but also being very cognizant of not overtaxing the taxpayer. So my personal experience has not been that. And as I said, we aren't a high spender relative to the rest of the country. Now maybe that's not the measure that you would look at, but relative to the rest of the country we are on the bottom half. So I think that there is a lot of care taken. I would agree that it should be looked as a stewardship, not an ownership, but I do think that the Legislature tends to be a very good steward and I think the Unicameral in particular does do a better job than a lot of other states. [LB669 LB1086 LB1094]

SENATOR KINTNER: Well, if you want to compare spending, you know, California, Illinois, New York,... [LB669 LB1086 LB1094]

RENEE FRY: Sure. [LB669 LB1086 LB1094]

SENATOR KINTNER: ...I mean Massachusetts, those are the prolific spenders. You compare us to those people and we look pretty reasonable. [LB669 LB1086 LB1094]

RENEE FRY: Yeah, just...but we're in the bottom half compared to the rest of the country. [LB669 LB1086 LB1094]

SENATOR KINTNER: But I appreciate you coming and I appreciate you having a little banter with me. Thank you. [LB669 LB1086 LB1094]

RENEE FRY: Yeah. Thanks. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Larson. [LB669 LB1086 LB1094]

SENATOR LARSON: Thank you for coming. [LB669 LB1086 LB1094]

RENEE FRY: Thank you. [LB669 LB1086 LB1094]

SENATOR LARSON: I've heard you mention 16 percent in preparation. I understand the economic cycles very well. And you want 16 percent Cash Reserve and that's why you are not opposed to Senator Davis' bill. When was the last time, besides the recession that we just went through, that we had a recession of that size? [LB669 LB1086 LB1094]

RENEE FRY: We haven't. But in 2000 the Legislature did...or in the early 2000s... [LB669 LB1086 LB1094]

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SENATOR LARSON: No, it was a simple...I mean when was the last recession of that magnitude that we had between 2000... [LB669 LB1086 LB1094]

RENEE FRY: Yeah, we haven't. We haven't had one of that magnitude in, yeah, in decades but... [LB669 LB1086 LB1094]

SENATOR LARSON: Decades. All right. And I understand wanting to save for that and I understand Senator Kintner's position as well in terms of returning the taxpayer dollars and the Property Tax Credit relief Fund, something that I've always taken a special interest for. You talk about state aid. You said that one of the reasons that state aid has...or that property taxes increased so dramatically is because of state aid to schools. Do you know what has happened to state aid in the last 14 years, where we were 14 years ago compared to where we are now? [LB669 LB1086 LB1094]

RENEE FRY: I have that as a share of the economy. I cannot tell you off the top of my head what those raw dollars are, but I could certainly get that to you. [LB669 LB1086 LB1094]

SENATOR LARSON: Well, I was actually just...had...lucky enough for me, I was looking at a slide show this morning and I can't remember the exact numbers, but roughly 14 years ago, and I can try to find that slide show that I was looking at this morning, 14 years ago we as a state were spending about \$200 less than the national average per pupil, and I want to say that was state and local taxes, property taxes, combined. But today we spend nearly as a state \$800 more than the national average on education. So I'm not going to quite buy the concept that cuts in state aid are the reason that property taxes are continuing to increase. I think there's...we are doing a lot in this state to fund education and I think the formula, I mean we can talk about state aid and the formula. I have issues with the formula. I have many of my school districts that receive zero state aid of that billion dollars that go out except for the local...they get some of the property tax dollars. But they receive no equalization aid, I should say. So that concept doesn't necessarily play well with me as a rule, Senator (sic), when a majority of my school districts receive no state aid. And I don't think, the way the formula works, regardless, it would take significant amounts of money to get them back into equalization. So that just doesn't buy it with me. Another question is you talk about a circuit breaker and that that's something that you can possibly support. Who in that circuit breaker deserves property tax credit relief that you mentioned? Who qualifies? [LB669 LB1086 LB1094]

RENEE FRY: Can I go back and answer this or address the state aid issue and then we can talk about the circuit breaker? So... [LB669 LB1086 LB1094]

SENATOR LARSON: What about the state aid issue do you need to address? [LB669 LB1086 LB1094]

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RENEE FRY: Well, you made a statement about our statement. [LB669 LB1086 LB1094]

SENATOR LARSON: It was more of just that I disagree with you. [LB669 LB1086 LB1094]

RENEE FRY: Oh, okay. So I just... [LB669 LB1086 LB1094]

SENATOR LARSON: So I'll move on to the circuit breaker. [LB669 LB1086 LB1094]

RENEE FRY: Okay. But I would want to clarify that we are by no means saying that the state aid formula today is perfect. We're not. All we're saying is that relative to other states, the percentage that is funded by the state level is very low. We're very, very empathetic about what the rural districts are going through and we have seen a big shift. And so we're not saying by any stretch of the imagination that we think that the formula today is the best fit for the state. [LB669 LB1086 LB1094]

SENATOR LARSON: Okay. [LB669 LB1086 LB1094]

RENEE FRY: So I just don't want you to see us advocating, you know, for that, because that's not an accurate portrayal... [LB669 LB1086 LB1094]

SENATOR LARSON: Okay. [LB669 LB1086 LB1094]

RENEE FRY: ...of what our position is. In terms of the circuit breaker, a way a circuit breaker works is that... [LB669 LB1086 LB1094]

SENATOR LARSON: I understand the way it works. Who deserves it, once it kicks in, because I've heard the Ted Turners should never get property tax relief and things. [LB669 LB1086 LB1094]

RENEE FRY: Well, so what it would do is it would provide assistance to folks who have high property taxes relative to their incomes. So, you know, we are very supportive of an agricultural circuit breaker. You know, if we can't do both agriculture and residential,... [LB669 LB1086 LB1094]

SENATOR LARSON: What if...here's a question for you then. In high proportion to their incomes, you know, if again, and this is just playing devil's advocate with you, Ted Turner sold out, sold out of everything, all he has is the land. His income tax still could be zero because the investment, reinvesting the dividends. We can...that is very possible that Ted Turner's income, taxable, will list him as zero. Under that circuit breaker, he qualifies still for the property tax credit relief, correct? [LB669 LB1086

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LB1094]

RENEE FRY: He, under a circuit breaker... [LB669 LB1086 LB1094]

SENATOR LARSON: Or are you going to start taking in value, assets of the value? At that point, you're going to start hurting the agricultural folks because, as we know, many in agriculture will be land rich and cash poor. [LB669 LB1086 LB1094]

RENEE FRY: Yeah. So the way that most circuit breakers work where a couple of states have agricultural circuit breakers and they do look at AGI and that's how they determine, that's how they determine what that credit is. I have not heard a better alternative to that, but it would be looking at AGI. And I think that's a worthy thing for us to be looking at as a state and would address those periods of volatility that agriculture sees as well, because that's the other piece. The property tax credit program doesn't account for how much money someone makes in a given year, whereas an agricultural circuit breaker and other circuit breaker would do so. So... [LB669 LB1086 LB1094]

SENATOR LARSON: So what would you say when in terms of agricultural circuit breakers...now you've led me down a whole new path, when, you know, we...agriculture itself is a volatile market right now and beef is great, corn not so great. So and these agricultural producers, they use planning year after year in terms of what their inputs are going to be, what, you know, what they're expecting. But they are at the beats of the market. So you know, right now beef is doing well so they're not going to get the Property Tax Credit relief Fund when beef is at, you know, where it's at now, and when corn is at \$8 instead of \$4 they will? I mean that makes it awful hard to plan as a business owner, especially as an agricultural producer moving forward with that type of method to plan your inputs. And when we're talking about planning inputs, because that comes down to, you know, how are we going to diversify between corn and beans, how are we going to diversify with animal agriculture. When we're talking about agricultural circuit breakers, I get the concept but there's a lot of variables in agriculture that depend on that, so. [LB669 LB1086 LB1094]

RENEE FRY: Sure. But so what an agricultural circuit breaker would provide is some extra security if they don't make the right decision and they have a bad year. [LB669 LB1086 LB1094]

SENATOR LARSON: It has nothing, the decision, their decision, might not depend whether or not the bad year. The market at \$4 corn might determine, \$3 corn might determine whether or not they have a bad year, not their decision. So what you're essentially saying, if corn is at \$8, the circuit breaker isn't going to kick in and they're going to have to, you know, they will receive no property tax credit relief, but if corn is at \$4 then they will because they're not going to be making as much money. [LB669 LB1086 LB1094]

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RENEE FRY: Right. So it provides some security if someone...if an agricultural producer has a bad year. [LB669 LB1086 LB1094]

SENATOR LARSON: So do you view the Property Tax Credit relief Fund as a floating fund where it floats up and floats down and big years, you know, when it's down, it, you know, when the ag economy is great, it's going to be way down, and when ag economy is bad it's going to be way up? And how do we as a state government plan for that then? [LB669 LB1086 LB1094]

RENEE FRY: Yeah. So what other states with an agriculture circuit breaker do is put a cap on that amount and then would prorate it accordingly. So depending on how it's structured, in years where it doesn't need to be tapped, certainly you could build it up much like a Cash Reserve, right, for that program. In years where there's a bad year, then you would have more money to disburse. You could do it that way. But states do use a cap to provide protection from going over. [LB669 LB1086 LB1094]

SENATOR LARSON: But in the end it will still be very difficult for that agricultural producer to plan his inputs for the year because he won't exactly know what his property tax bill is going to be because it will just depend on the market. [LB669 LB1086 LB1094]

RENEE FRY: Yeah. I guess...I mean I'm not an agricultural producer but I guess I would be surprised if the tax credit would be the incentive for them to decide what they're planting. But it would provide some cushion. [LB669 LB1086 LB1094]

SENATOR LARSON: When I have agricultural producers that are farming, you know, farming or ranching, depending on what it is we're talking about, tens of thousands of acres, the property tax credit is huge not only for them but for the economy in all the people that they employ. If we're talking in the \$129 on \$150,000 home and we're talking about these people, you know, a quarter of ground is worth over \$1 million easily. Yeah, we're talking about jobs and the economy, that if they can't plan on what, you know, what all their inputs are going to be and what it's going to cost them to produce, there is drastic effects to what these people could do, especially some of the larger agriculture producers. So I just have problems. I get what you're trying to say with the circuit breaker. I understand the circuit breaker, but there are very real issues with that whole concept. Thank you. [LB669 LB1086 LB1094]

RENEE FRY: But...and I guess I would just say, you know, on the flip side, it does give them that insurance and would protect against job loss. [LB669 LB1086 LB1094]

SENATOR LARSON: Well, the Property Tax Credit relief Fund gives them the assurance right now. [LB669 LB1086 LB1094]

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SENATOR MELLO: Senator Nordquist. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Thank you, Mr. Chairman. So we are at, on our Cash Reserve right now, \$600...you said \$679? Is that right? [LB669 LB1086 LB1094]

RENEE FRY: Yes, that's right. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: It's projected to grow to \$725. Do you know what we were at, at our lowest point coming out of the recession? Was it \$300 or was it less than that? [LB669 LB1086 LB1094]

RENEE FRY: Oh, I do have that. We came out in FY '11 at \$313. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: \$313. Okay, so is there...can you...is there any way that our Cash Reserve could grow from \$313 million to \$679 million if we spent every penny? [LB669 LB1086 LB1094]

RENEE FRY: No. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Larson. [LB669 LB1086 LB1094]

SENATOR LARSON: Are you familiar with how money gets into the Cash Reserve? [LB669 LB1086 LB1094]

RENEE FRY: Yes. [LB669 LB1086 LB1094]

SENATOR LARSON: How...can you explain that, that method? [LB669 LB1086 LB1094]

RENEE FRY: Yeah. So when we have excess revenues over the forecast then they are designated for the Cash Reserve at the end of the fiscal year. [LB669 LB1086 LB1094]

SENATOR LARSON: And when do we certify those excess or when we set our budget we set it at a certain amount and anything over that budget essentially. [LB669 LB1086 LB1094]

RENEE FRY: Right. [LB669 LB1086 LB1094]

SENATOR LARSON: And I understand what Senator Nordquist is getting at in terms of us spending every penny, but we essentially, as the Cash Reserve is built up, it's over

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what we had to spend last year, correct? As it's built up, that the extra money has been... [LB669 LB1086 LB1094]

RENEE FRY: So it's additional. It's revenues in excess of the forecast. [LB669 LB1086 LB1094]

SENATOR LARSON: Additional from what we were expecting. [LB669 LB1086 LB1094]

RENEE FRY: Right. [LB669 LB1086 LB1094]

SENATOR LARSON: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Nordquist. [LB669 LB1086 LB1094]

SENATOR NORDQUIST: Just to correct the record, at any point over the last four years, since we've grown from \$313 million, we could have taken transfers and spent every penny of that at any point along the way. Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Conrad. [LB669 LB1086 LB1094]

SENATOR CONRAD: Thanks, Renee. I just want to go back to the conversation you were having with Senator Larson in regards to the correlation between TEEOSA funding and the property tax burden. So I think I've seen some graphs and charts and analysis from your shop on that topic. If you'd like a chance to talk about that for the committee, I think it would be helpful because it seems to me that the research is pretty clear. [LB669 LB1086 LB1094]

RENEE FRY: It is. Thank you for that opportunity. We have found when state aid to K-12 goes up, property taxes go down. There's a direct correlation there. And so...and it stands to reason when we're putting additional money in, and schools do have caps to...spending caps to abide by and they do adjust for those increased revenues. So we have seen that, yes. [LB669 LB1086 LB1094]

SENATOR CONRAD: And as part of that analysis and research that you conducted, did you eliminate other factors that may be driving that correlation or provided another basis for causation? Or how does your methodology account for some of those other factors? [LB669 LB1086 LB1094]

RENEE FRY: Yeah. So we haven't gone so far as to say there's causation, but there is a strong correlation and we've seen year over year that property taxes tend to go up at a much higher rate when state aid is cut than vice versa. There is a direct...we actually have a couple of different ways that we've looked at that. One is we call the mirror chart where you actually see this direct correlation when state aid goes down, property taxes

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or local taxes are up, and vice versa. And we have looked at local taxes because that's looking at all state aid, because, obviously, cities have...they have other local tax resources. And then we've specifically looked at and have a graph on TEEOSA and the amount that we've put in TEEOSA and property taxes. And we see when there are large bumps, our property taxes go down; and when we see that there are cuts, the property taxes go up. So I wouldn't say that it's, you know, causal, but I mean there is this strong...you can see in the data points when we have these increases, you see the property taxes go down, and vice versa. [LB669 LB1086 LB1094]

SENATOR CONRAD: And that analysis applies equally to urban and rural areas... [LB669 LB1086 LB1094]

RENEE FRY: Yes. [LB669 LB1086 LB1094]

SENATOR CONRAD: ...of Nebraska. [LB669 LB1086 LB1094]

RENEE FRY: Correct. [LB669 LB1086 LB1094]

SENATOR CONRAD: It's not unique to one specific sector's burden. [LB669 LB1086 LB1094]

RENEE FRY: No, it's not. Yeah. [LB669 LB1086 LB1094]

SENATOR CONRAD: Very good. Thank you. [LB669 LB1086 LB1094]

RENEE FRY: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Any other questions from the committee? Senator Nelson. [LB669 LB1086 LB1094]

SENATOR NELSON: Thank you, Senator Mello. Thank you, Renee, for coming today. I think you said that the average value of residential property is \$116,000? Is that correct? [LB669 LB1086 LB1094]

RENEE FRY: The average residential home value, yes. [LB669 LB1086 LB1094]

SENATOR NELSON: Is that all over the state of Nebraska? [LB669 LB1086 LB1094]

RENEE FRY: That's statewide, yes. [LB669 LB1086 LB1094]

SENATOR NELSON: Would the \$150,000 be a little more on par with Omaha property or do you... [LB669 LB1086 LB1094]

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RENEE FRY: I'd have to look. I do think that Omaha tends to be a little bit higher than other,... [LB669 LB1086 LB1094]

SENATOR NELSON: Uh-huh. Uh-huh. [LB669 LB1086 LB1094]

RENEE FRY: ...so that probably is true. But I have to get back to you on that. [LB669 LB1086 LB1094]

SENATOR NELSON: We both live in Omaha. [LB669 LB1086 LB1094]

RENEE FRY: Uh-huh. [LB669 LB1086 LB1094]

SENATOR NELSON: We both pay residential property tax. [LB669 LB1086 LB1094]

RENEE FRY: Uh-huh. [LB669 LB1086 LB1094]

SENATOR NELSON: Do you happen to know what the tax...property tax would be on a \$150,000 home in Omaha? Do you have a figure in mind or a guess? [LB669 LB1086 LB1094]

RENEE FRY: I know we have that. I just don't know it off the top of my head. [LB669 LB1086 LB1094]

SENATOR NELSON: Would it be maybe \$3,000, \$3,000 to \$3,500, or does that seem about right? [LB669 LB1086 LB1094]

RENEE FRY: I'm sorry, I... [LB669 LB1086 LB1094]

SENATOR NELSON: I'm just kind of doing a ratio for what I pay. If we are, assuming we are at that point, maybe even with \$2,500 a year where you have retired people on retirement income, I mean this is a little bit of help here, you know. But through your research with OpenSky, do you have suggestions for helping those property owners out to a greater extent? [LB669 LB1086 LB1094]

RENEE FRY: Yeah. So the Revenue Committee does have a bill to expand the homestead exemption, which would certainly help more taxpayers that meet those criteria. And then a circuit breaker again, a residential circuit breaker would help, and that would be regardless of age, whereas the homestead is specifically for seniors. But a circuit breaker would, again, help residential homeowners who have low incomes relative to their property tax, which is why we really like that approach, but. [LB669 LB1086 LB1094]

SENATOR NELSON: So it would work that way there... [LB669 LB1086 LB1094]

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RENEE FRY: Yes, it would. Uh-huh. [LB669 LB1086 LB1094]

SENATOR NELSON: ...just as far as concerning large income. [LB669 LB1086 LB1094]

RENEE FRY: Yes. [LB669 LB1086 LB1094]

SENATOR NELSON: All right. [LB669 LB1086 LB1094]

RENEE FRY: Uh-huh. [LB669 LB1086 LB1094]

SENATOR NELSON: Thank you very much. [LB669 LB1086 LB1094]

RENEE FRY: Thanks. [LB669 LB1086 LB1094]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Renee. [LB669 LB1086 LB1094]

RENEE FRY: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Next opponent for LB669, LB1086, and LB1094. [LB669 LB1086 LB1094]

JASON HAYES: (Exhibit 4) Good afternoon, Senator Mello and members of the Appropriations Committee. For the record, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s. I'm here today representing the 28,000 members of the Nebraska State Education Association. NSEA is opposed to LB669 and similar efforts to erode the Cash Reserve Fund for a short-term property tax reduction. We believe the one-time transfer of \$85 million, in the case of LB669, is shortsighted in that it diminishes the state's future ability to mitigate revenue downturns in important areas, such as funding for state aid to education. Reductions made in promised state aid dollars during such times are disruptive to school districts, students, and property taxpayers. One way to address the cyclical nature of revenue shortfalls would be to establish an Educational Trust Fund, as is contemplated in LB1026 introduced by Senator Bolz and heard in this committee two weeks ago. Such a trust fund helps reduce the likelihood of a reduction in state aid, which would invariably result in either a local property tax increase or sudden and severe program cuts during an economic recession. We believe the creation of an Educational Trust Fund would be a better way to plan ahead for revenue shortfalls, rather than give an immediate short-term reduction in property taxes. And I thank you for your time. [LB669 LB1086 LB1094]

SENATOR MELLO: Thank you for your testimony today, Jason. Are there any questions from the committee? Senator Kintner. [LB669 LB1086 LB1094]

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SENATOR KINTNER: Hi. [LB669 LB1086 LB1094]

JASON HAYES: Hi. [LB669 LB1086 LB1094]

SENATOR KINTNER: Whose money is...I'm going to ask you the same question I asked Renee. Whose money is that \$725 million? [LB669 LB1086 LB1094]

JASON HAYES: The money that comes in, it's from the taxpayers. [LB669 LB1086 LB1094]

SENATOR KINTNER: Whose...rightly, whose money is it? Is it our money? Is it taxpayer money? Is it... [LB669 LB1086 LB1094]

JASON HAYES: You mean "our money" from the standpoint of the Legislature's or the state of Nebraska? [LB669 LB1086 LB1094]

SENATOR KINTNER: Yeah. Yeah, who owns that money? [LB669 LB1086 LB1094]

JASON HAYES: I mean technically at this point in time it's owned by the state of Nebraska in their Cash Reserve Fund. But it was supplied by the taxpayers of the state of Nebraska. [LB669 LB1086 LB1094]

SENATOR KINTNER: You talked about an Educational Trust Fund. What's the difference between doing a trust fund and having this committee make the decision of how to cover those shortfalls? Why would you rather have a trust fund than trusting this committee? [LB669 LB1086 LB1094]

JASON HAYES: Well, a trust fund just creates some self-discipline, creates...prioritizes a certain amount of money to go towards state aid to education. I think it, as mentioned by the last testifier, it is important to recognize the correlation that when state aid to education goes up, property taxes tend to go down. And the reason why we're advocating an Educational Trust Fund is so that we don't get into a situation as a state where the economy goes into a downturn and then, as a result of a cut to state aid to education, you're at the same time increasing property taxes on the local level, which we think would be very harmful. [LB669 LB1086 LB1094]

SENATOR KINTNER: Any chance you might come with a proposal to instill some discipline on the spending side? [LB669 LB1086 LB1094]

JASON HAYES: No comment. [LB669 LB1086 LB1094]

SENATOR KINTNER: Yeah, no comment. Hey, thanks. Thanks for coming. Appreciate

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it. [LB669 LB1086 LB1094]

JASON HAYES: Okay. Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Real quick, Jason, I think the previous testifier mentioned there is currently a state cap in regards to a local school district's ability to spend money, so there is a state-created spending cap on school districts. They can't simply spend as much money as they'd like and tax people as much as they'd like. Am I correct in that assessment? [LB669 LB1086 LB1094]

JASON HAYES: That is correct. There is a budget limitation. [LB669 LB1086 LB1094]

SENATOR MELLO: All right. Senator Conrad. [LB669 LB1086 LB1094]

SENATOR CONRAD: Thank you, Jason. Well, you're actually here testifying in opposition to increased state spending. So to answer Senator Kintner's question, here's "exhibit A," I guess, because we know this is a spending program. No matter how people want to characterize it, a dollar in is a dollar on the budget is an increase in state spending. The source is clear. But nonetheless, anybody who's ever looked at this for one minute will tell you it's a spending program. So there's the first answer to your question. The second is this. It's just a...we kind of get in the weeds on some of these other tax and revenue policy pieces before this committee and before this Legislature, but let me just ask this very basic, very simple question. The Cash Reserve is...and transfers from that are really one-time in nature. It's not really an ongoing source for different revenues, whether that's spending or tax cuts or anything with a price tag. So one thing that I am very worried about is the evisceration of the Cash Reserve for any purpose that has an ongoing obligation. So if you'd like to talk directly to that, that point about whether or not it makes sense to utilize a one-time Cash Reserve for ongoing obligations, I'd give you that opportunity. [LB669 LB1086 LB1094]

JASON HAYES: Well, I think one of the things to look at, and you know I don't have those numbers right in front of me, but it was mentioned, I think, in some of the bills in terms of what the amount would be back to the average taxpayer, the average homeowner. You know, you're looking at \$57, \$77. The real question from an economic standpoint is, what's the best use of that \$57 this year? Is it for a short-term stimulus of what \$57 would do on the local level? Is it for putting that money aside so that when there is a downturn that you are able to utilize those dollars? I mean, in essence, you're putting aside \$77 per homeowner, average, towards a future downturn as compared to going forward three or four years when there is a downturn and then taxing, putting additional tax on homeowners of \$77. So that's the point that I'm trying to stress, is that it's important to save now for...rather than tax at a time which would be very harmful. [LB669 LB1086 LB1094]

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SENATOR CONRAD: Very good. And then just in your work with other members of other educational professionals that interface with this body, you know, one thing that they've made loud and clear to my office is that, yes, of course they'd like additional resources to attend to their important state obligations. But if that's not possible the next best option is stability... [LB669 LB1086 LB1094]

JASON HAYES: Right. [LB669 LB1086 LB1094]

SENATOR CONRAD: ...in terms of planning. And any evisceration of the Cash Reserve impedes that stability moving forward and jeopardizes our education system and jeopardizes our kids and our future. So if you have a chance to respond to that, I'd give you an opportunity. [LB669 LB1086 LB1094]

JASON HAYES: Well, one of the things that I spoke to two weeks ago was just a situation where you're looking at a student, maybe an eight-year-old or whatever age, going through a period when there is a revenue downturn or when the Legislature is contemplating cuts in state aid to education. You know, if services are cut, it's no fault to the child other than just the time that they were born in. So maintaining that continuity is very important so that everybody has the same opportunity, regardless of where the economy is at the current point. [LB669 LB1086 LB1094]

SENATOR CONRAD: Great. Thanks. [LB669 LB1086 LB1094]

SENATOR MELLO: Any other questions from the committee? Senator Bolz. [LB669 LB1086 LB1094]

SENATOR BOLZ: Good afternoon. I was just hopeful that you could speak for a minute to the unique nature of needing funding for educational purposes because of its constitutionality. Can you speak directly to what the impacts might be should we not be able to sufficiently fund education? What's a worst-case scenario? [LB669 LB1086 LB1094]

JASON HAYES: Well, I hate to get into a worst-case scenario, but there is a constitutional requirement that the state of Nebraska provides a good education or education opportunity for every child. And in this, an Educational Trust Fund helps to maintain that. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Larson. [LB669 LB1086 LB1094]

SENATOR LARSON: I'm glad you brought up that the state has an obligation to provide funding for every child. Do you think it's fair that the unequalized school districts in terms of we have local taxpayers in O'Neill and Plainview and Randolph that provide the majority of not only the dollars but pretty much all the dollars for the education of their

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own children? They do receive some in terms of special education and the income tax allowance back. They do get some back, but that they are receiving a majority and...but not compared to...or that they're...the local property taxpayers are essentially paying for that entire education of those children instead of the state, whereas in other areas of the state, the state may be paying for a majority of that education? [LB669 LB1086 LB1094]

JASON HAYES: Yeah. [LB669 LB1086 LB1094]

SENATOR LARSON: And you can speak to the constitutionality of that as well. Do you feel that that's constitutional? [LB669 LB1086 LB1094]

JASON HAYES: Well, I'll leave that up to the State Supreme Court, but...in terms of constitutionality of that. But just in terms of how state aid to education is currently apportioned, I think there's room for improvement. You look at the teacher education allowance that was...a portion of that was turned into a grant program, which went to unequalized school districts or nonequalized. We were supportive of that. So, you know, we're... [LB669 LB1086 LB1094]

SENATOR LARSON: The rural school districts do get some, like I said, the special education funding and the teacher education allowance. And we do, and like I said, we do receive a little bit in terms of the income... [LB669 LB1086 LB1094]

JASON HAYES: Uh-huh. [LB669 LB1086 LB1094]

SENATOR LARSON: ...income tax rebate part of the formula, but... [LB669 LB1086 LB1094]

JASON HAYES: And we are support... [LB669 LB1086 LB1094]

SENATOR LARSON: ...the unequalized...but I'm just making the point in terms of the state does have a duty to provide an education to all its students. But it looks like in a lot of school districts across the state, it's the local property taxpayers that's providing most of that education through dollars whereas in some other school districts it's not necessarily the case. [LB669 LB1086 LB1094]

JASON HAYES: And I know that Senator Sullivan has a visioning process that she's trying to get passed right now. And so hopefully that will be addressed this summer in terms of looking at that. [LB669 LB1086 LB1094]

SENATOR LARSON: Thank you, Jason. [LB669 LB1086 LB1094]

SENATOR MELLO: Senator Conrad. [LB669 LB1086 LB1094]

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SENATOR CONRAD: Jason, one more question just to clarify for the record. The last time the State Supreme Court looked at school funding issues, they essentially said that it was a nonjusticiable political question in terms of what the Legislature chose to put into that component and to how we define what a quality education is under our constitution. Is that a fair assessment of the recent...the status of the case law on that topic? [LB669 LB1086 LB1094]

JASON HAYES: Yes, it is. [LB669 LB1086 LB1094]

SENATOR CONRAD: Okay. Thanks. [LB669 LB1086 LB1094]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Jason. [LB669 LB1086 LB1094]

JASON HAYES: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Other opponents to LB669, LB1086, and LB1094. [LB669 LB1086 LB1094]

ANNE HINDERY: (Exhibits 5 and 6) Thank you, Mr. Chairman, Senators. My name is Anne Hindery, A-n-n-e H-i-n-d-e-r-y, and I'm here today, I represent the Nonprofit Association of the Midlands. We're a state association for nonprofits of all sizes and missions, and I'm here to voice our opposition to both LB1086 and LB669. A strong Cash Reserve is just really plain common sense, and we see the value of protecting our state's Cash Reserve. Nebraska was fortunate to have a strong Cash Reserve when the last recession hit. That helped us get through without having to make some major cuts to schools and other vital services, as other states did. Cash Reserves exist for temporary, one-time emergencies, and transferring funds via LB669 or LB1086 is not a good use of these funds. Thank you for your consideration, and I'd be happy to entertain any questions. [LB669 LB1086 LB1094]

SENATOR MELLO: Thank you for your testimony, Anne. Are there any questions from the committee? Seeing none, thank you. [LB669 LB1086 LB1094]

ANNE HINDERY: Thank you. [LB669 LB1086 LB1094]

SENATOR MELLO: Any other opponents to LB669, LB1086, or LB1094? Seeing none, is there anyone here in the neutral capacity on LB669, LB1086, or LB1094? Seeing none, would Senator McCoy, Pirsch, or Davis like to close? [LB669 LB1086 LB1094]

SENATOR PIRSCH: Thank you, Mr. Chairman. I'll be brief. Just like to say I appreciate the questions today. With respect to circuit breaker legislation, that is something we've looked at. The committee counsel for Revenue Committee has urged caution on that

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with respect to the constitutional issues that are thought to exist with respect to going down that path. With respect to concerns about our core priorities as a State Legislature to fund our high priorities--education, health and human services, public service, etcetera--there's nothing inherent about this plan that should, in my opinion, interact with or defeat that in any way, shape, or form. I think that that's why it was fashioned the way it is, in a very prudent manner. And so with that, I thank you for your time. [LB669 LB1086 LB1094]

SENATOR MELLO: Thank you, Senator Pirsch. Are there any other questions from the committee? Seeing none, thank you, Senator Pirsch. Not seeing Senator Davis or Senator McCoy, we'll assume they are waiving closing on their respective bills, and that will end today's public hearing on the Property Tax Credit Fund transfer bills. And will lead us next to our water funding bills for the day, starting first with LB940 and then LB1046. Similar to the process we just went through regarding the Property Tax Credit Fund bills, we will have Senator Schilz and Senator Carlson both introduce their respective bills. Then we will turn it open to proponents of both bills or either bill, then go to opposition, and then we will go in the neutral capacity for either or both bills. We will wait for Senator Schilz and Carlson to grace the committee. Senator Carlson, since you're here first, we're going to let you go first, ahead of Senator Schilz, for respect out of time for those wishing to testify. We'll start first with LB1046 and then hear testimony from Senator Schilz immediately after on LB940. [LB669 LB1086 LB1094 LB1046 LB940]

SENATOR CARLSON: (Exhibits 7, 8, and 9) Thank you, Chairman Mello and members of the Appropriations Committee. I am Tom Carlson, T-o-m C-a-r-l-s-o-n, senator of District 38, here to present LB1046. And this bill requests \$50 million of General Funds to be transferred to the Water Sustainability Fund beginning in 2015. I'm going to talk about how the new funding process would work and how the funds would be spent. This is the plan for how the funding process would work through LB1098, my bill to restructure the Natural Resources Commission and then through rules and regs. The current Natural Resources Commission will be restructured and will have a wider range of representation for groups in Nebraska to have a real interest in water issues. Commission will reconstruct rules and regulations to ensure that the project is funded to promote water sustainability. The new commission will consult with other agencies and entities that have obligations and expertise regarding water funding, including the Department of Environmental Quality, Game and Parks, and the Nebraska Environmental Trust. Sponsors will work out a proposal for a project to protect and enhance water. Sponsors will then present their proposal to the new Natural Resources Commission, and the commission will evaluate the projects against the criteria developed by the Water Funding Task Force. Projects that meet the highest evaluation under the criteria may receive funding through the Water Sustainability Fund. And the criteria that were developed by the Water Funding Task Force focus on protecting the ability of future generations to meet their water needs by doing things like increasing

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aquifer recharge, reducing aquifer depletion, increasing streamflow, addressing threats to drinking water, managing flood threats, ensuring municipal and industrial needs can be met, and protecting wildlife habitat and promoting conservation. The more benefits the project will contribute to, the higher it will rank in the criteria. Now funding is needed to enable us to do better planning on a basin-by-basin basis so that we can do projects where there is the greatest need. And a good way to think about it was described by UNL law professor, Anthony Schutz: Our legislative decisions whether or not to provide water funding can be seen as legal decisions. State funds are used to create information through the studies, modeling, and research which are then used to develop the tools and resources necessary to act on that information. Now I'm going to just talk a little bit myself about how necessary that I think this request is. I think this information is reasonably accurate on how important water is to the state of Nebraska. On average, we can live 33 years without any medical treatment. We can live 33 days without food. We can live 3 days without water. Nebraska has an absolutely wonderful natural resource in the Ogallala Aquifer. We know that agriculture is our number one industry and it requires water. And we want to manage the water supply we have in such a way that for generations to come we can address our needs in agriculture, we can address the needs in municipalities, and we can address those needs for those that have domestic wells. And the truth of the matter is, if push comes to shove, municipalities and domestic wells will have priority number one because of the importance of water to life. But to keep our economy healthy, we have to manage that water in such a way that agriculture has what it needs, industry has what it needs, and everybody in the state has what they need. In the western part of the state, we have a water scarcity problem. In the eastern part of the state, we have surplus water a lot of the time. And it's fairly well accepted that we have a million acre-feet of water coming into the state every year and 8 million acre-feet leaving the state. And that's because we get a lot of rain in the eastern part of the state and it ends up in the Missouri River. But we have to address that. And the states around us aren't really addressing the problem. Texas is mining its water. Oklahoma is mining its water. Kansas is mining its water even though they think we use too much. We look at a map of the water depletions in those states, Nebraska still looks good and we've got to keep it that way. And so we have to get to a position where in the use of water we're sustainable because we don't use any more on average than what our supply gives us. And if we're using more than what our supply give us, we have two choices. We can use less water or we can increase our supply. We can increase our supply and we need to do that, which means we need some projects that we can put in the western part of the state and the northern part of the state when we have excess flows coming into the state and we hold that water. And if we hold that water, because it flows north to south and west to east in the state, we have that water in a position, in dry times it can be used and it benefits the entire state. It's absolutely key to the future of the economy in the state of Nebraska. And those states that aren't taking care of their water and we do and we have a sustainable plan, we will be in the best position economically of anyone. The world population is increasing. The demand for food is increasing. Our agriculture provides food for the world. That's our mission.

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And we've got to be in a position that we take advantage of that and we preserve it for generations into the future. And when we do that, all the other states will be envious of Nebraska because we're doing things right and we're providing leadership. Think with me a little bit. Seventy years ago there was a group of people in Nebraska that had the foresight to talk about and make a decision on Kingsley Dam and Lake McConaughy. Think of the effect of that decision over these last 70 years. It's unbelievable. And if we didn't have people then that stood up and said this is what we need to do and we got to think ahead, we wouldn't have that today, and we'd be in an entirely different situation. I like Dr. Ronnie Green from UNL who when I hear him speak he says that we are in 2014 but we got to think like 2050. And that's what we're doing here with LB1046--we're thinking ahead. And it takes courage because there's a lot of reasons that people would give that we can't do this. We can do this. We've got to have the will to do it. And if we don't do it, we'll get to a point in the not too distant future and look back and say, why didn't somebody do something? This takes courage because a lot of people think it's too much money. So I think it's the right thing to do. I know it's the right thing to do. I appreciate the Appropriations Committee considering this request. And I'll try to answer any questions that you might have. Thank you. [LB940 LB1046]

SENATOR MELLO: Thank you, Senator Carlson. Are there any questions from the committee? Senator Harms. [LB940 LB1046]

SENATOR HARMS: Senator Carlson, thank you very much for coming. I think of all the bills that we've heard this year, when you get right down to it, is probably the most single important bill for our future. Because if we don't have water in the future, we don't have to worry about taxes. We're not going to have to worry about Reserve. We're just simply not going to have it. It's as simple as that. In your proposal, how much of this money will be used for any kind of capital construction projects? Or is it going to be just for research? [LB940 LB1046]

SENATOR CARLSON: The vast majority will be used for structures and projects that put us in a position to better manage the water that we've got. Now we know that some of those dollars will have to be spent on research. And if we're talking about a new structure, we've got to study to determine where that new structure should be, and it needs to be in the right place. [LB940 LB1046]

SENATOR HARMS: I guess where my interest seems to lie a great deal is at...would fall in the research area. And it's really clear to me when we try to look at the water issues in Nebraska, there have been a lot of little individual studies done. But I don't think there's been any total comprehensive study done on the water issues from the east and west, the north to south. It tells us overall from the research, one, this is what's happening to the aquifer; this is what's happening to surface water versus groundwater and how it recharges, how it regenerates. This is also research in regard to what's happening to the quality of our water. So I'm hoping that as we look at this I think in

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order to get at what's happening to our Ogallala Aquifer and all the other aquifers we have in Nebraska you simply have to have the research. We have to have the knowledge of how all this recharges, how it regenerates. You know, a great example is Texas and Oklahoma. Of course, theirs gets narrower...the Ogallala Aquifer gets narrower as it goes south. And they drain it, it's not coming back. And I worry a little bit about that, particularly during the periods of drought when I see a lot of the sprinklers running for seven days a week, 24 hours a day throughout the whole summer and no rain coming in, what's happening to that aquifer. Some of the data I've looked at shows we've dropped in some places, 10, 15, 20 feet. You can't do that very long and you're just not going to have much of an aquifer left. So I guess my point here is, how much is going to be in the research area and what kind of research are we really looking at? [LB940 LB1046]

SENATOR CARLSON: Well, I think that the Natural Resources Commission, once they're operative, they've got to look at it and make decisions. And I don't know what to tell you in terms of percentage of dollars spent. But I know there's got to be study and there's got to be research and there's got to be action. And if we make the commitment up-front that we're going to see this thing through, we'll get to a point where we know what needs to be done and we know what projects need to be completed and what dollars need to be spent. If we're not willing to do that, then 10 or 20 years from now we're right back where we are today. And let me say this, that the Water Policy Task Force that worked on the legislation that eventually became LB962 was good legislation. That was ten years ago. Now there's been a lot of effort in the last ten years to become better managers of our water. But LB962 by itself did not have a funding effort. Funds were not asked for, and they should have been asked for. And they should have been asked for unabashedly. They weren't. So here we are today and we're asking for dollars to do what really could have been well started ten years ago. [LB940 LB1046]

SENATOR HARMS: Do you think in the legislation that you have presented to us that we ought to amend it to identify what we think our priorities should be in spending? I worry a little bit. I'm not against this bill at all. As you know, I'm very much supportive of water. I know what the issues are, particularly where I live. What I am a little concerned after we all leave and are gone, we're not going to be able to really pay a lot of attention to what's happening here. And I don't want to see us go astray. I wonder whether we shouldn't take some time to figure out what our priorities should be and how the spending should be used for the priority process on the legislative side so we're going to direct the people who are going to take this thing over that this is really what we want. This is just a question so I... [LB940 LB1046]

SENATOR CARLSON: And I don't want to argue with that, but I do say that we're at a point where we need to make a commitment. And the commitment involves dollars. And I think that the new Natural Resources Commission has the expertise on it that what

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you're talking about can be determined. They're not going to do the research, but they're going to determine that it's necessary and needed. And so I don't want to get delayed in terms of a little bit hesitancy to what actually needs to be done and let's not do anything until we get to that point. I don't think that's what you're saying, but... [LB940 LB1046]

SENATOR HARMS: No, I'm not. What I'm really saying is it's important for us to identify for the policy side of \$50 million is that would it be important for us to say, this is what our priorities are, number one, number two, number three and go from there. I don't know. I'm just asking the question. [LB940 LB1046]

SENATOR CARLSON: Well, I don't think it's unreasonable. I've got enough confidence in this task force that will become the Natural Resources Commission that we've got the brain power on there to start with this and carry it through. And I think we're going to end up with what you say, but we still have to make the up-front commitment. [LB940 LB1046]

SENATOR HARMS: What I worry about is there's not going to be enough Tom Carlson there. I would feel really comfortable if you were in there and you had another eight years of this whole thing. I know it would be where we want to be. We don't know what the future is going to be. I'm not going to belittle this. This is not...I wouldn't say I'm not going to support it. I do support whatever we can afford to do. But just telling you that as I look at this it bothers me just a little bit. I don't know where people will be ten years from now and whether or not we'll go astray or whether we can keep it pointed to driving it where we want to be and making sure we accomplish the task that you have in your heart, in your dream to make sure that we have a future for our children and our grandchildren. That's really all I'm after. [LB940 LB1046]

SENATOR CARLSON: Well, and you and I both agree that this is one of the difficulties with term limits... [LB940 LB1046]

SENATOR HARMS: I know. [LB940 LB1046]

SENATOR CARLSON: ...that long-term planning is a real issue. I'm comfortable. We have some individuals on this Natural Resources Commission. They're going to be in a position to carry this through. And I don't think it's as big a problem as you may have a fear of it. And I don't, even though my time is limited and your time is limited. We've got good people coming in. [LB940 LB1046]

SENATOR HARMS: Thank you. [LB940 LB1046]

SENATOR MELLO: Real quick, Senator Carlson, there's a number of members who have questions. I want to give you and Senator Schilz both the opportunity to address some of the memo of concerns in relationship to how the green copy of both bills were

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drafted in respects to the fund governance and control, the administrative costs of the fund, the ability...what the fund can be used for, if it's requiring matching dollars or not, accountability issues in regards to reporting, and the nonbackfilling of the repeal of the excise grain tax that we took action on 2011. I want to give you the option and Senator Schilz both to address some of those questions that were raised in the memo I gave you guys this morning in the sense of how the green copy version may need some changes generally, regardless of whether or not the committee appropriates the dollar amount you're requesting or not, but generally the structure and challenges of both bills. I want to give you that opportunity before senators dig in I think the more specific questions if you'd like. [LB940 LB1046]

SENATOR CARLSON: Well, we're open to whatever your suggestions might be for how this bill should be changed in language in order to better fit what your concerns are. So from the standpoint of how do we move along, the green copy is not ironclad by any stretch. [LB940 LB1046]

SENATOR MELLO: Okay. [LB940 LB1046]

SENATOR CARLSON: And you have that expertise. You have the expertise available through the Fiscal Office. And we talked to them, and certainly their suggestions are fine with us. [LB940 LB1046]

SENATOR MELLO: Okay. Thank you. Senator Larson. [LB940 LB1046]

SENATOR LARSON: Thank you, Senator Carlson. And I think you said it best when you talked about this is the time for a commitment to water. And I stand with you on that, this being that time for a commitment. And I think you're probably the right one when that was passed a decade ago, LB962, that there probably should have water funding there. On a lighter note, when you commented the foresight of Lake McConaughy and the benefits that it's offered to the state, is that you saying that we needed Lake Ashland as well? (Laughter) [LB940 LB1046]

SENATOR CARLSON: Location, location, location. (Laughter) [LB940 LB1046]

SENATOR LARSON: Thank you. [LB940 LB1046]

SENATOR MELLO: Senator Wightman. [LB940 LB1046]

SENATOR WIGHTMAN: Thank you, Senator Mello. Thank you, Senator Carlson, for being here. I agree that we need some money. Can you indicate...you need some money, let's say, and probably all of us for this fund. Can you give me any idea how long \$50 million might take to spend for what you're considering it would be spent for under LB940? [LB940 LB1046]

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SENATOR CARLSON: Well, and I don't...you're not inferring something here that I'm taken for granted. We have two bills that are being presented today. One of the bills requests \$50 million out of the Cash Reserve, and my bill requests \$50 million a year starting in 2015. And how long would it take to spend \$50 million? Not very long. We have holdover bills that through the Natural Resources Commission and limited dollars coming in to take care of those projects that have been approved and they've been studied thoroughly and it takes about \$36 million just to take care of those projects. And I don't know how much you've been able to look at this. I know when I'm on a committee and somebody comes in front and you hand a lot of material, your eyes kind of glaze over. You've got a billion dollars' worth of projects here that are good projects and have been determined to contribute to sustainability. And if we get back to the concept of sustainability, and I'm not seeing any reaction from this committee that would say sustainability is not important. It's crucial. So how long would it take to spend \$50 million? We can spend it in a hurry and they're going to be for good things. [LB940 LB1046]

SENATOR WIGHTMAN: Now in spending \$50 million of the state's money, do you see the NRDs coming up with money also to spend in addition to this? [LB940 LB1046]

SENATOR CARLSON: Thank you. That's a good question and it's a concept that we just take for granted. I'm sure that the matching percentage will be 40 percent from any local group that wants money from this fund. They've got to come up with 40 percent as their matching amount. And I can tell you in traveling throughout the state and listening to people that there's a general consensus that water issues are so important and the money should come from the state. But if we have a 40 percent match by any local entity that wants a part of this project, that's a pretty good percentage of match. And if you have a project out in the north or west part of the state that undoubtedly is benefiting the entire state, I think we have to widen our concept a little bit as to how many groups help pay for this. But that's where the state is involved in helping the funding, is pretty important. The wider the advantage of a given project I think that the more verification there is that these should be state dollars helping fund it. But it still looks like the 40 percent match. That's what's been done in the past, and I don't see that changing. [LB940 LB1046]

SENATOR WIGHTMAN: So the 40 percent, would it come from NRDs or where would that come from? [LB940 LB1046]

SENATOR CARLSON: It might be Game and Parks. It might be NRDs. It might be municipality. It might be any of a number of groups that water is an issue with them and they need something done, and that is judged by this commission that it contributes toward water sustainability in the long-run. And if it does, it deserves consideration. So it wouldn't just be NRDs. It could be irrigation districts. It could be public power. It could be

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a number of different groups. [LB940 LB1046]

SENATOR WIGHTMAN: You just indicated a short time ago that maybe a trillion dollars is what you need to do all of this. How much of that would come from local funding? [LB940 LB1046]

SENATOR CARLSON: I don't even know what a trillion is. And I said there's a billion dollars' worth of projects here. A billion dollars is a lot of money too. But that would... [LB940 LB1046]

SENATOR WIGHTMAN: Excuse me, maybe we're talking about billion rather than trillion. I'm in the wrong government. (Laughter) [LB940 LB1046]

SENATOR CARLSON: Okay, yeah, I think you are. And this one, you know, has a real charge and a real desire to balance things. So if it was a billion dollars, I think \$400 million of it would come from local entities. That's a lot of money. But if there's the will that this is what we need to do, in Nebraska we'll get it done. [LB940 LB1046]

SENATOR WIGHTMAN: Thank you. [LB940 LB1046]

SENATOR CARLSON: Okay. [LB940 LB1046]

SENATOR MELLO: Senator Nelson. [LB940 LB1046]

SENATOR NELSON: Thank you, Chairman Mello. Thank you, Senator Carlson, for coming. A couple of my questions were answered I think by your responses to Senator Wightman. A lot of water going out of this state, what, six, seven times as much as comes in. The west and part of the central is pretty dry, and you mentioned rains in the eastern part of the state. Is that where you would contain the water to the great extent as far as keeping it here in the state; and is it a possibility that some of that can be sent west to help out? [LB940 LB1046]

SENATOR CARLSON: The excess water that's in the eastern part of the state that ends up in the Missouri River and then flows away, I suppose the only way we can get that out west is a pipeline. That would be tremendously expensive. But we do have occasions where water coming into the state from the north and from the west is excess water. And when that's the case, we need to be prepared to hold that water back. So it's a lot easier to hold excess water that comes in from the north or the west and then save it for dry times, than it is to try and pipe water from the eastern part of the state out west. The eastern part of the state has some flood problems, and that's all a part of sustainability. Those have to be considered too. And I think, you know, those of us that had the two-day meetings at Offutt, it didn't take me long to drive in there and realize what Offutt is to Nebraska, and looking at those levees and realizing if they went, we

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are in a heap of trouble. And we don't have control over keeping Offutt in Nebraska. We can do what we can, but I think the possibility of Offutt leaving Nebraska would be fairly high if those levees broke. [LB940 LB1046]

SENATOR NELSON: So part of this \$50 million a year might go for dams and things of that sort in the eastern part of the state... [LB940 LB1046]

SENATOR CARLSON: Yes. [LB940 LB1046]

SENATOR NELSON: ...for flood control more than water preservation necessarily? [LB940 LB1046]

SENATOR CARLSON: Could be. Flood control is a water issue. And so, yes, I think that that would be possible too. [LB940 LB1046]

SENATOR NELSON: But \$50 million annually, is that kind of based on the level of projects that you have now that you could be started? Or where do we come up with that figure? [LB940 LB1046]

SENATOR CARLSON: Well, we have a billion dollars' worth of proposed projects here. That's 20 years at \$50 million a year. Now, you make a decision up-front, okay, we're going to do this. That's a huge decision. And if this money was not handled properly by the commission and it was observed by the Legislature going in a few years, we don't like what we're seeing here, the Legislature always has the possibility of changing that and stopping that. But one huge McConaughy? A new McConaughy? I hope that's possible. We need to study that and where would it be. That's a lot of money by itself. And if we're on a path where we're contributing and we're willing to put money toward water sustainability and get us there, we'll be in a better position to make a big decision about a new structure like McConaughy. But it needs to be in a position that, in my view, that it benefits the entire state. Something in the eastern part of the state that that's big doesn't benefit the whole state unless we pipe it out there. We're better off catching it out in the west so that we can release it to the east when it's necessary. [LB940 LB1046]

SENATOR NELSON: We have Lake McConaughy. Is there enough coming in to Nebraska from adjoining states to warrant another McConaughy, do you think? Has there been research on that? [LB940 LB1046]

SENATOR CARLSON: Well, not complete research. But we have a lot of spring-fed areas in the state that are west and north, and I think there's an excellent opportunity up in that area somehow that we could stop these excess flows that come into the state, because we've just got too much water leaving the state. And even though a lot of it is in the eastern part to begin with, we need to do a better job of holding that water, as we

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have opportunity, out west; and then we put everybody in a better position so that we can have the water we need for agriculture, we can have the water we need for electricity, we can have the water we need for municipalities and industry and domestic wells; and water quality is important too. But we need to put ourselves in a spot where we never have to look back and say, I wish we had done something. And that's what these people did 70 years ago. I don't know how they got it done, because I'm feeling nervous sitting here in front of you today, because this is a big request and it's thinking big. And somehow you have to do that and you make the commitment that we're going to keep Nebraska in the best position of any state in the United States on water. Water is worth more than oil, by far; and we need to be in a position that we can capitalize on that. [LB940 LB1046]

SENATOR NELSON: Thank you. [LB940 LB1046]

SENATOR MELLO: Senator Conrad. [LB940 LB1046]

SENATOR CONRAD: Thank you, Senator Carlson. It's always a pleasure to see you before the Appropriations Committee. You don't come visit us very often. But I'll tell you this: I know in our now eight years of service together that you are a very thoughtful legislator and take issues very seriously and do your homework. And I've really appreciated and enjoyed reading much of your handiwork in relation to the report put out by LB517. I think it speaks volumes to how you conduct yourself, and it's a very comprehensive, very thoughtful approach to addressing this issue. So, number one, a compliment to you. Now I want to dig in a little bit on some of the governance issues that Senator Mello touched on briefly. And, of course, if it's something that we need to work on, if there's agreement on the concept, I know that you'll work with this committee. But I do want to ask as a threshold question, a few years ago we changed state law to allow the Environmental Trust to provide funding, some of their funding, to different water projects and change kind of a priority system to accomplish that. Why wouldn't they be a good person to govern the implementation of this concept? [LB940 LB1046]

SENATOR CARLSON: Well, they have their system. And we already have a Natural Resources Commission that has been doing a similar thing on evaluating projects. And the new commission that's going to come out of LB1098, which is my other bill, I think it really establishes an expert group of people that are also taking environmental interests in and other groups that have a concern about how water is managed. We've done a good job of managing water in this state, but we've got some things to take care of because we don't want to get in a position that these other states are in. And I believe this group of experts, it's a balanced approach. It's not all groundwater. It's not all surface water. It's not all public power. It includes municipalities. It includes sportsmen. It includes outdoor recreation. It includes environmental concerns. This is a well-rounded group of, I'm going call them experts, and I've already seen them in action.

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And I've got every confidence that it's going to do what you are kind of inferring it ought to do, but I think it's going to do it better because it just has, I'll call it, a better balance. Not that the Environmental Trust doesn't, but agriculture is our number one industry. And now we've got other groups coming into this that also have a say, and I think it's going to be a good balance for the state of Nebraska. I think this is the right group. [LB940 LB1046]

SENATOR CONRAD: Okay. So if we were to move forward with a concept, as Senator Schilz or that you have proposed here, then would you be amenable to then going back and revisiting some of those changes to the Environmental Trust, because, in essence, it would free up some of their time and resources for other purposes? [LB940 LB1046]

SENATOR CARLSON: Yes. [LB940 LB1046]

SENATOR CONRAD: Okay. Then the other piece I wanted to note was some of the proactive efforts that this Legislature has taken, particularly through your leadership, whether it's the invasive species mitigation and some of those issues, those have paid great dividends in terms of our liabilities in water litigation, in terms of being sustainable with what we have available. And they came at a...that came at a much smaller price tag. So I'm wondering if there are some of those similar types of approaches that we can take, kind of in a short-term beyond this kind of larger, more comprehensive approach. And if you'd like a chance to respond to that. [LB940 LB1046]

SENATOR CARLSON: Well, I appreciate your comments. And, Senator Conrad, you were in on that original decision that voted for the bill that provided \$2 million in 2007 and \$2 million in 2008 to see what we could do in removing invasive vegetation from the streambed of the Republican and whatever we could do on the Platte. It's a wonderful job on the Republican, because that was small enough that it wasn't the \$2 million that did it; it was what followed within NRCS and other groups that helped with the funding, including the Environmental Trust, because they saw that was a worthy project. So it sounds like, you know, \$2 million in each of two years is a lot of money, but that was about equally split between the Platte and the Republican. But then we had to have help, and we are continuing to fund that on the Republican. We've cleaned up over 300 miles of streambed in the Republican. The Platte is still a massive venture, but we're making progress and we've got to keep doing it. And the effect of that has been absolutely wonderful. [LB940 LB1046]

SENATOR CONRAD: I agree. [LB940 LB1046]

SENATOR CARLSON: It's increased the supply of our water, and... [LB940 LB1046]

SENATOR CONRAD: Yes, I agree. [LB940 LB1046]

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SENATOR CARLSON: But we've got to do that in the whole state. [LB940 LB1046]

SENATOR CONRAD: Very good. And then the other question that I wanted to bring up was really more from the fiscal perspective. And in reading through the task force report there were a variety of recommendations, I think wide-ranging, in terms of creativity and practicability in terms of how to fund these important projects moving forward. And they range from removing sales tax exemptions to increasing taxes in certain regards. And can you tell me at the end of the day this is really the main focus of your solutions to implement LB517. Or are you pursuing any of the other funding sources that were identified by the task force this session? [LB940 LB1046]

SENATOR CARLSON: Are we pursuing anything else? That depends on you and this committee. But we had a lot of discussion, and we asked for and we encouraged various alternatives to be brought up for discussion of how can we do this. And when it got down to it, water is vital to the entire state. And I don't want to bore you with trying...you know that. I don't have to convince you of that. It is absolutely critical to everybody in the state of Nebraska. So when you've got something that that's important to everyone, the state should be paying a pretty good portion of it. And if that's what's happening...and that is what would happen here. But the local groups that want a part of this, they've got to come up with 40 percent of the cost. So that's the local participation that we maybe would have been looking for in some of these other options, whether it be to tax irrigation land, whether it be to have some kind of a severance tax on ethanol, or whether it be sand and gravel, or whatever it might be, they're going to come up with their part on that 40 percent match. [LB940 LB1046]

SENATOR CONRAD: Okay. And just to be crystal-clear, because I'm not remembering from all of the bills introduced, were some of those other ideas mentioned put forward in legislation this year? [LB940 LB1046]

SENATOR CARLSON: No. [LB940 LB1046]

SENATOR CONRAD: Okay. [LB940 LB1046]

SENATOR CARLSON: We had bills drafted and then there were six of us as senators that were in an advisory position. We got together with other interested groups and had some pretty thorough discussions, and the decision that we made to ask it this way was the consensus of the senators as well as the other groups that were in on it. And so that's why this bill is as it is. [LB940 LB1046]

SENATOR CONRAD: Fair enough. I just wanted to make sure that was clear. [LB940 LB1046]

SENATOR CARLSON: Okay. [LB940 LB1046]

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SENATOR CONRAD: And then two quick points. So your legislation would allocate \$50 million per year for these very worthy projects. Have you had any sense about what that might do in terms of other state obligations and the removal of that \$50 million from other general-funded activities? [LB940 LB1046]

SENATOR CARLSON: Let me say this, that whether it's this for purposes of water management or whether it's \$50 million for something else, it might be \$50 million for cutting back the amount of money that's paid for K-12 education or from property tax, but you get into an area of \$50 million, how do we do that? We do that in a state that has a healthy economy with increasing private sector jobs, and being careful about expansion of government, because your salary and my salary, even though it's not a whole lot to brag about, those are all tax dollars that pay us. And so when you expand that, it can get away from you rather quickly. But if you have an economy...and we are encouraging and doing things that really will implement an increase in private sector jobs, we can handle these kinds of things. If we don't have the water in a good position across the entire state--and you understand the effect of agriculture--if we allow ourselves to get in a position where we're struggling there, we're going to struggle with everything. [LB940 LB1046]

SENATOR CONRAD: So your intent would not to be to harm existing obligations, but through growth in the economy we'd be able to absorb this. Okay. [LB940 LB1046]

SENATOR CARLSON: And I think you can have growth in the economy, and then you're not raising taxes; you're just improving your economy. [LB940 LB1046]

SENATOR CONRAD: Okay. [LB940 LB1046]

SENATOR CARLSON: We can do that if we have the will to do it. [LB940 LB1046]

SENATOR CONRAD: I definitely understand that perspective. And finally, last question, I promise. Thank you for your patience. In looking through the report, I see at least nine different indications where there was a consensus called to leverage additional federal dollars, and I think overall that's a very good strategy, a very sound strategy. But as you well know, we're having a great debate in this body about utilization of federal dollars for some purposes and not for others. So I asked the same questions to folks from HHS and I'll ask the same question to you: What's the difference? What makes a federal dollar good and a federal dollar bad? [LB940 LB1046]

SENATOR CARLSON: Well, I think that what we're talking about here...let's go back to the efforts made on the Republican River on removing invasive vegetation. We encouraged leveraging those dollars with some federal dollars, if possible. And NRCS, the Natural Resources Conservation Service, is a federal division. They became active

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in that project and they still are. Is it tapering off? Yes. But we've had other groups step up and they've been a part of that too. So I think federal dollars are only a part of that 40 percent matching. Now, if they can be more than that, great, we'll take it; but we're not going to depend on them. And that's where some of this determination, I think, comes in, that we as Nebraskans we're going to get this done whether we have the help of the federal government or not. And we can do it as long as we've got a vibrant economy that's growing. And we can do a lot of things if we have that. It's what we have to have. [LB940 LB1046]

SENATOR CONRAD: Senator Carlson, I thank you for your conversation and I appreciate your leadership on this topic. [LB940 LB1046]

SENATOR CARLSON: Thank you. [LB940 LB1046]

SENATOR MELLO: Senator Wightman. [LB940 LB1046]

SENATOR WIGHTMAN: Thank you, Senator Mello; and thank you again, Tom, for being here and giving us a lot of good information. This is mostly a question that just is in my mind. As you know, we had a lot of flooding in the Platte River, or quite a bit of flooding, last spring, coming down from Colorado. Do you have any idea how much got out of the state of that? And I don't know how you'd even express it. But did a lot of it get out of the state? [LB940 LB1046]

SENATOR CARLSON: You're talking about the floods in Colorado. [LB940 LB1046]

SENATOR WIGHTMAN: Right. [LB940 LB1046]

SENATOR CARLSON: Now, I think that was the best example that I've seen in my eight years of the state of Nebraska making a decision that we're going to divert some of this water, all that we can, and put it into a usable position. And even at that, there was a lot that flowed all the way through the state. But this came at a time, it was after irrigation season, and down the Platte River into Johnson Lake, into Elwood Reservoir, into the canals, which really didn't need water because it's after irrigation season, but the canals were full. Elwood Reservoir was drained and it was the fullest I've ever seen it. I couldn't believe it. And so when we have the will to divert water when it's possible, we need to do that. And if we would have had a little bit more rehab in some of our existing structures, we could have held even more water. But we did a terrific job and there would have been a lot more water ended up down the Platte and through the Missouri had we not done this. I really commend the Department of Natural Resources for decisions that they made that said we're going to take this water and put it in a good position; and we really...the state really did that. We can do more of that. [LB940 LB1046]

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SENATOR WIGHTMAN: Tell me the amount that got away, and I know you aren't going to be able to express this is cubic feet or probably anything, but how much would it have done toward filling up another major dam that you were talking about? Do you have any idea? [LB940 LB1046]

SENATOR CARLSON: No, I don't. But certainly even perhaps some of the structures that we now have, if we would have done some rehabbing there and so we're ready for an event like this, we would have been able to keep more. But in some of the things that I had seen in the past, I think we could have let a lot more of it run down the river. We didn't do it this time. We took the right step and...very helpful. [LB940 LB1046]

SENATOR WIGHTMAN: Thank you. [LB940 LB1046]

SENATOR MELLO: Senator Bolz. [LB940 LB1046]

SENATOR BOLZ: Good afternoon. [LB940 LB1046]

SENATOR CARLSON: Good afternoon. [LB940 LB1046]

SENATOR BOLZ: Two questions for you, the first playing off of Senator Conrad's questions. I think that the recommendation of establishing a revolving fund for water sustainability projects is intriguing. Can you tell us more about that recommendation and how that might work? [LB940 LB1046]

SENATOR CARLSON: Well, if we have...are you talking about as a revolving fund to use something where we can have local entities borrow money out of that fund and then repay it? [LB940 LB1046]

SENATOR BOLZ: This is from the recommendations from the task force. And I understand a revolving fund is something that gets paid into on a regular basis from a funding stream and then gets paid out for a dedicated purpose. [LB940 LB1046]

SENATOR CARLSON: It was pretty much the opinion of the task force. We didn't have extensive conversations and discussion about that, but a revolving fund is a good thing. And in my mind I think of a revolving fund as something that we put money into. We let money go out and that money gets paid back so that it's always there for another project. So a portion of these funds I think it would be a good idea to utilize that way. I don't think the majority of them, because we've got too many big opportunities that we would...and it's not going to be a fund that just continues to grow, grow, grow, and grow, and then we're going to let money out and it's all going to come back. Because some of these water projects fit into the category, they're good for everybody in the state, and it's not a matter of making a loan and then repaying it. It's a matter of paying for that project so that it can be used. But there are other things where NRDs and perhaps irrigation

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districts, if they could borrow money and complete a small project and then pay it back, and these are smaller ones, on an ongoing basis, that's also beneficial for the entire state. So I don't know if I'm answering the question the way you'd like it, but that's the best I can do. [LB940 LB1046]

SENATOR BOLZ: If part of your argument is that water funding will help grow the economy, isn't there an opportunity there that the related economic growth could turn back into water sustainability purposes? [LB940 LB1046]

SENATOR CARLSON: Yes. Yes. [LB940 LB1046]

SENATOR BOLZ: My other question, slightly different question, is as someone who is learning about water projects, I've learned a lot, that there are different kinds of projects that are, of course projects related to clean water for places like my district, there's irrigation in places like your district, recreational use. Can you help me understand a little bit more deeply this package of projects that's in front of us? I think that would help me understand what priorities are and what purposes we're trying to achieve. There's a mixture of things if I understand it correctly. [LB940 LB1046]

SENATOR CARLSON: Yeah, there's...there are options, and we had that state map that showed where various projects were. And there's a lot of opportunities for doing things that may benefit a given area of the state. And this area is in the eastern part of the state, that's okay, that's good. I think a project that benefits the entire state is one that puts water in a position so that when it flows it's going to flow in the right direction, west to east, or north to south. But you have different concerns throughout the state. We have water quality concerns. We have flood concerns. We have municipality concerns about pure water for Lincoln and Omaha that are absolutely critical. We're an agricultural state and we want water for irrigation, but we have to have water that takes care of Lincoln and Omaha and other municipalities because if we don't we're not going to have water for irrigation because municipalities and domestic users come first. And projects that help keep that viable so that those areas and those individuals will be supplied with the pure water that they need, really comes first. It's got to be a part of this whole. So every project that's done, I think in some way contributes toward that. And if it doesn't, we better look at it. [LB940 LB1046]

SENATOR BOLZ: So am I correct or am incorrect in understanding that there are some recreational purposes in this proposal? Or is my understanding incorrect? [LB940 LB1046]

SENATOR CARLSON: I think, by and large, recreation is a by-product. Whenever you put water together and hold it someplace, it automatically opens up recreational opportunities. But water for flood control, water for irrigation, water for power, water for life, that all comes ahead of water for recreation. But when water is held, it offers

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recreation. [LB940 LB1046]

SENATOR BOLZ: Very good. Thank you. [LB940 LB1046]

SENATOR CARLSON: Okay. [LB940 LB1046]

SENATOR MELLO: Senator Carlson, I've got two questions. One, and you can leave it up to those testifying in support of LB1046 or LB940 to give some of this background. Are we going to expect that if we were to appropriate both money from the Cash Reserve for LB940 and LB1046 General Funds, that current water users will use less water in the future from here on out? That we're spending money so that farmers, primarily farmers, who are using water will utilize less water into the future; that they will conserve water with building some of these infrastructure projects. [LB940 LB1046]

SENATOR CARLSON: And I'm not the only one on this, Senator Mello. But in my eight years in the Legislature, I've focused on this every year. And I'm not the only one. Senator Christensen has. Senator Schilz has. And it wasn't very many years ago that we really thought in this state we've got so much water it's unlimited, don't worry about it. I've lived through that. I know what that was like. And so it's easy to get into a habit and you think it doesn't matter; we've got so much we don't need to worry about it. We know better now. And once you develop a habit of using this much water, you've got to bring yourself down and you can't do it overnight and you've got to have some time. I've seen a lot of improvement. Boy, out in the western part of the state they're learning how to get by with less; and they are smart people, and if they have a given amount of water that that's all they're going to get--you've got to have a reasonable amount--but they are able to cope with that. But why do it unless you have to? Because when we used to think we've got enough, don't worry about, bankers were telling people go out and put a well on there and we'll loan you the money, it's a good asset. And accountants were saying the same thing, attorneys were saying the same thing. But we've got to be good managers of that. And we're realizing that more quickly than other states. So it's a combination of funding what needs to be done and learning to get by on less. And I talk about that all the time and so do many of these other folks that are part of this commission. [LB940 LB1046]

SENATOR MELLO: I can appreciate that, Senator Carlson. I know as Senator Schilz, myself, you, the Speaker, Senator Christensen, others, Senator Lathrop had conversations last year, and at the end of session we were looking at potential issues surrounding water sustainability. Can you see skepticism, though, in the sense of from a non-agriculture senator, a non-agriculture background senator and/or population, that this could be interpreted that we are spending money to build infrastructure so that we can allow people to continue to use the same amount of water they're using, into the future, and not focused on conserving more water, knowing that we're just simply spending more money to acquire more water so that they can continue to use what

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they're using now. Can you see that skepticism? [LB940 LB1046]

SENATOR CARLSON: I see it. I see it very clearly. And those of us that are close enough to agriculture that we understand what's happening, we are preaching the sermon that we've got to get along and grow more with less. Now, in 2012, with the drought that we had, there was more water pumped in the northeast part of the state and the southeast part of the state than any time in the history of the state. And this isn't to speak poorly of people that live there, but they've never had to worry about water. All of the sudden they did. And now they realize that our supply is not unlimited and we've got to do a better job of handling the water that we have. So it's a combination of doing things that help us increase the supply, stopping the groundwater depletions, and learning how to get by with less so that we have a vibrant economy that's growing and not shrinking. And if we don't do these things, I don't think there's any other way but we're going to end up shrinking; and we can't afford to shrink. [LB940 LB1046]

SENATOR MELLO: I appreciate that. One other question. I have a fiscal-related question, but more kind of general policies. Where do you see kind of regulation fitting into the general concept of both your bill...and I'll let Senator Schilz answer this question when he comes up as well, in the sense of how will the new...let's say your other...let's say your reform bill of the Natural Resources Commission passes. Where do you see regulation impacting them moving forward? Will they be working obviously with the Department of Natural Resources to mesh new...creating new rules and regulations with projects within DNR right now? [LB940 LB1046]

SENATOR CARLSON: This new group with the balance that it has, there will always be a concern for pure water and conservation of water. Not that there hasn't been before, but that will be toward the front of this group. And we simply have got to address the places in the state where we're seeing groundwater depletions. Some are doing it. Some are doing it on their own. I can...I'm not going to name an NRD publicly that saw something coming and the manager took the bull by the horns and said we're going to do this, and it wasn't a popular decision but he just made it, and it's got things headed in the right direction. And so that's the responsibility of the NRDs to manage groundwater. This group is going to look at all that. And if we're not getting where we need to be in certain areas of the state, I believe this group will address that through the Department of Natural Resources. Nobody is going to get off scot-free on this. We cannot have an attitude, let's get some more water out of here so we can keep doing what we're doing. No. We're going to get by with less. But unfortunately, that takes some time to do that. And we could put a regulation in this session, this year and say get there by next year; and that's unfair. We're not going to do that. But there will be an eye on how the natural resources districts are managing their areas for what their responsibility is, and nobody is going to argue that the end result isn't that we're going to get by with less and we're going to be sustainable. We have a buy-in with this whole group. We have a buy-in with the NRDs. They voted unanimously, let's support this. So there's dual responsibility.

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The state is going to fund and the NRDs are going to manage. And it will be good management. [LB940 LB1046]

SENATOR MELLO: As a follow-up just to make sure I'm clear, Senator Conrad asked a question that I was going to ask, which is the LB517 report gave a variety of different financing options besides what the committee has in front of it today with LB1046 and LB940. Those are going to be options that could be revisited, obviously, in the sense of, depending upon what action, if any, the Legislature takes on water financing this session. Is that something that you see happening past your term in the Legislature? [LB940 LB1046]

SENATOR CARLSON: I think that's fair. And if we get back to the concept that because of the importance of water to everybody in the state of Nebraska, the state needs to be obligated and willing to fund a good portion of this. The rest of it comes by the people that are using it. And so, you know, I'm encouraging the Appropriations Committee, let's make a good commitment up-front. [LB940 LB1046]

SENATOR MELLO: Well, I only have one other question, and it's kind of a closing kind of argument to allow you to make. I know Senator Conrad has got other questions. So this committee just heard today, prior to your and Senator Schilz's bill, requests to appropriate \$340 million, between \$25 million for a one-time year, to \$230 million over two years, for property tax relief. We heard bills last week to appropriate over \$20 million for the Game and Parks Commission for deferred maintenance. We know in the Revenue Committee there are tax bills that want to reduce income taxes ranging from \$100 million next biennium, to \$950 million next biennium. We have a bill on Select File to reduce income for ag machinery and repair parts, roughly \$16 million next biennium. We have a prison reform package that we don't know what that's going to cost this year and/or into the future, that could lead us to have to build a \$130 million new prison and pay \$25 million a year to staff it. This committee heard last year the request for \$60 million to fund our DD waiting list that's still roughly almost 1,500 Nebraskans waiting to get services who are developmentally disabled. There's obviously a lot of need right now in the state for spending appropriations, but also on the same vein a significant number of individuals who want to reduce revenues coming into the state. How do you make your argument to not just this committee but the Legislature and the state as a whole that, one, we should be trying to both cut taxes and appropriate more money for a new priority in the state right now, which I would think we can all agree that what you and Senator Schilz have brought us is a new priority, outside of our current obligations for public education funding, for healthcare providers for their provider rates. You know, just throwing out a fact and figure, the request that's in LB1046 is more money than we appropriated to all of higher education last biennium, which I would argue that was probably the highest appropriation we've made to both the university, state colleges, and community colleges, in more than two decades in regards to a tuition freeze in return. How do you make that request or how do you...I want to give you the opportunity

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to make that kind of final pitch, so to speak, in regards to why this request of \$100 million for the next biennium and \$100 million for future bienniums, how that fits into this bigger global picture of our current obligations of K-12 education and healthcare for senior citizens and those with disabilities, and particularly in light of the ongoing pressures that the Legislature needs to dramatically cut income taxes and put more money into the Property Tax Credit Fund. [LB940 LB1046]

SENATOR CARLSON: Well, Senator Mello, we don't have an easy job. That's why we get paid \$12,000. But it's a matter of priorities. And nobody will try and argue the fact that water is life, and that if we slide down a path that we're getting behind and we're depleting and we're not able to handle the responsibilities that we know water is for, we will be in a position we don't want to be in. And it's a...so it is a matter of priority. How important is our way of life? How important is it that we don't have municipalities that have difficulty with pure water? Other states are having those difficulties. We don't want to get there in Nebraska. And tax relief, I think it's important. I think it's vitally important. I will vote for it. But we've got to also have the will to take care of these opportunities and responsibilities by having a vibrant, growing economy. And some of that is will, as well, more good-paying, private sector jobs. We have a terrific challenge here, and I really believe if we make this move now and grit our teeth and make the decision and go forward, I still hope to be here 20 years from now. I intend to be. I'm going to shoot my age 20 years from now. We'll look back and we will be thankful that we made the tough decision and we prioritized water in the state of Nebraska. It's the most valuable resource that we have except for our people. Let's do it. [LB940 LB1046]

SENATOR MELLO: Senator Conrad. [LB940 LB1046]

SENATOR CONRAD: Senator Carlson, that was a great closing argument. But during the course of your conversation, another track occurred to me. I do agree with and support the concept of shared responsibility, because we are all in this together. We are state senators. Yes, we represent discrete districts, but we have to look at the best long-term interests of the state. We also have shared liability when things don't go very well in relation to some past practices that caused litigation with some of our sister states and that's going to put every Nebraska taxpayer on the hook for some of those outcomes. So I'm very open-minded and supportive of those concepts. One thing, in looking at the report, I see there's some discussion about research and infrastructure and conservation and I think it was identified as four main components, kind of, that the projects or activities would fall into. One thing I'm worried about then in looking at the water needs list is, you know, we're doing a lot or we want to do a lot to address pollution, whether it's nitrates or arsenic or I think we're dealing with another issue here in the Lincoln community. But I didn't see a whole lot in this report about changing practices and thinking about how we can reduce the use of chemicals and how those may impact some of these very worthy and lofty goals. So if you'd like a chance to respond to that. What I'm worried about is we're going to spend \$50 million a year on

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infrastructure and we're not really getting to the root causes on some of those things. [LB940 LB1046]

SENATOR CARLSON: Well, I really believe that in the process of spending this \$50 million, there's no way we're losing track of our need to address the nitrate problem. Now, arsenic and some of these other things are so important from the standpoint of municipalities,... [LB940 LB1046]

SENATOR CONRAD: Sure. [LB940 LB1046]

SENATOR CARLSON: ...they're not really related to agriculture. [LB940 LB1046]

SENATOR CONRAD: Yes. [LB940 LB1046]

SENATOR CARLSON: But some of those are. Nitrates are. And agriculture won't back off of its responsibility to handle these problems. And I just believe that our people in agriculture and livestock production are so serious about wanting to see that we continue to move ahead and we continue to feed the world, which I've often said is a mission second only to the mission of the church, we will not shirk our responsibilities. These things will be taken care of. And in the bill itself we talk about water quality as well as water quantity. We have to address these issues. You know, there are some places in the state I have no idea why we have a problem there. But whether it's ag related or not, and I think some of these certainly aren't, it might be related to industrial, we've got to take care of it. We've got to take care of it, and we've got to fund it in order to take care of it, because we want the good water supply. We want people in Nebraska to have a great place in which to live, and we want this to be the best state in the nation in that regard. And we can do that, but we can't do it without funding. [LB940 LB1046]

SENATOR CONRAD: Okay. Thank you. [LB940 LB1046]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Senator Carlson. [LB940 LB1046]

SENATOR CARLSON: Thank you. [LB940 LB1046]

SENATOR MELLO: Next up, Senator Schilz will open up on LB940. [LB940 LB1046]

SENATOR SCHILZ: Good evening, Senator Mello and members of the Appropriations Committee. Thank you very much for hearing LB940 today. My name is Ken Schilz spelled K-e-n S-c-h-i-l-z, and I represent Legislative District 47 and I am bringing LB940 before you today. My family has always farmed and irrigated in Nebraska. When I was five years old I remember helping my grandfather set tubes on a pulled ditch that was underneath the Western Irrigation Canal. From then we moved to irrigated pipe that we

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worked on and did that, and it improved the efficiency completely. From there we moved to surge valves that helped the efficiency even more, and even to pivots where we are today. So I've been involved in that aspect of water issues for a long time--my whole life. In the mid-'90s I became in water issues on the policy level. As I said, my family had farmed and irrigated both with groundwater and surface water rights under the Western Irrigation District. During that time a person came to me and asked me if I would be interested in serving on the board of directors of the Nebraska Water Users, which is a statewide irrigation board that represented about 5,000 irrigators in the state of Nebraska. I made the mistake and said yes, and ever since then I've been a part of that. I served as past-president of that Nebraska Water Users where, working in conjunction with Senator Wightman's old partner Jim Doyle, who is now Judge Doyle in Lexington, we went to Washington, D.C., and represented the irrigators and the FERC movement on the three-state Platte River Recovery Program and represented those. I also served on Governor Johanns' Platte River Advisory Committee as well as Governor Heineman's Platte River Advisory Committee. And those were the committees that advised the Governor on whether or not we should enter into the three-state program to protect and promote and rehab the Central Platte area for the three-state and Platte River Policy...or Platte River Recovery Program. I also served on the Water Policy Task Force in 2004 that LB962 came from. I also was very fortunate to be able to serve on the Twin Platte NRD IMP stakeholder negotiations representing recreation in the South Platte Basin. And then I also served in the negotiations when the Platte River Recovery Program was going on, representing downstream users. So I just want to tell you about a few of the issues out there and specific programs and specific projects that this will go towards. And I'd like to start with three areas, and the first one is the Platte River Recovery Program. It involves the state of Nebraska, Colorado, Wyoming, and the federal government; and it is set up to protect and rehab the critical habitat area for the piping plover, the least terns, whooping cranes, and the pallid sturgeons. This program, as it has been entered into, which is completely voluntary by Nebraska, comes to us in three increments. We are right now in the middle of the first increment. That first increment and the impetus for LB962 was to get users back to 1997 levels. Okay? So when you ask if we're going to use less water, we are mandated through this program, if we stay in it, to continue down that path. The first increment, we have found about 130,000 acre-feet of water. Okay? That water was the low-hanging fruit. That water was the stuff that we were able to go grab and able to use through efficiencies, through retiming, through moratoriums, allocations, metering, and an environmental account in Lake McConaughy. Surface water buyouts partially accomplished the goal of this first increment. One of the projects that we are talking about needing to be put in place is a project called the J-2 project which will sit right alongside the Platte River, right ahead of the critical habitat area. That project will get us to the first increment. That project has a price tag of \$75 million. It's a reregulation reservoir which will retime flows to make sure that they are where they are supposed to be, when they're supposed to be, for the benefit of the habitat and for the benefit of the species. The second increment, which we haven't entered into yet and will start in 2019, if I understand correctly, we don't know

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what the...we don't know what we'll have to do for that. But we know this: In talking with the federal government with the Fish and Wildlife Service throughout the whole process of negotiating and everything like that, they have had one number in mind the whole time, and that number is 417,000 acre-feet per year extra to the stream in the times of need; which means not only do we have to have the water available but we have to be able to retime the water when it needs to be there for the species, which is hugely critical. One of the other things that we're working on, and I'll just talk a little bit closer to home, on the Western Irrigation District we have a recharge project. And Senator Carlson talked about how we look at recharge and stuff, and he talked about the floods from Colorado. Our irrigation district, because our infrastructure is not robust enough we had to shut all of our infrastructure down when that flood came down because the flows were just too large to start out for us to be able to divert any of that. After three days of bank-full river running down the South Platte somewhere between 20,000 and 30,000 CFS, we--cubic feet per second--we were finally able to open the gates and we were able to divert and store recharge underground, which we measured, about 3,000 acre-feet of water during that ten days that we were able to do that. That's a huge amount of water. So what we're saying is a project like that where we have mapped the aquifer underneath the canal, where we know the capacity of what it can handle if we want to store water underground, and we know exactly how much is there available for use depending on how much we put in; that process, the Twin Platte NRD and Western Irrigation have already spent about \$200,000 on that process to do the sonar and the mapping that they need there. The synthesis of that, which we talk about the...you know, we talk about the research and things like that, that's needed. That total project will probably run about \$600,000. And so we would look to a fund like this to partner with the NRD, the irrigation district, as well as others that may come in to do that. Obviously, one other big issue that's out there is the Missouri River, a tributary flooding in Lincoln and Omaha well fields, and both of which of these are critical to the state, as well as the communities that are affected. The Offutt levees fit into this as well, and are another example of the projects that the state will use this fund to work cooperatively and partner with the NRDs, counties, municipalities, and the federal government, where possible, to accomplish it. That project has a price tag of \$24 million. Another area that we all know of and we've all heard about is the Republican Basin. And I bring this up because I want to impress upon each one of you what happens when you don't have funding in place before you have a problem. And what happens when you run out of water is that there isn't any working together; there is only trying to fight for what you believe is yours. And so as we look at this and we talk about \$50 million that's going to come from, whether it's a one-time thing from the Cash Reserve, or whether it's ongoing, you talk about how do we do this. And as I talked about it, I look at this as an opportunity for future property tax relief. Because as we partner with people, those local entities will not have to pay as much as they would have before, which will reduce what they have to do. So this is real property tax relief. This works and this is at a level that we can handle. It's not \$500 million. It's not out there. And this will actually do some good to create opportunities in the future so that...and you asked, you asked Senator

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Carlson, will we do this just to reduce uses out there? Yes, we will. But we will also use this to mitigate those so we don't have to reduce them and regulate them as far as possible...or as much as possible. And that's the key to this stuff and that's why we're here today. It is vastly important that this water funding come into place because it can do so much for people and provide opportunities for what's out there. I heard Senator Conrad asked about water quality and how that works. And if you look at Table 3 on the criteria developed by the task force program, it says to the extent to which the PPE contributes to the goal of water sustainability for the state of Nebraska by protecting the ability of future generations to meet their needs, including the following: The first one is remediating or mitigating the threats to drinking water. Okay? Included in that is water quality. And I know this for a fact that agriculture understands now the importance of taking care of that. I mean, right now, the technology is out there to be able to measure the nitrates in the water and to use those nitrates to reduce the amount of fertilizer and the other chemicals that have to be placed on the crop by using that that's available in the groundwater that's there. So we're seeing that. We need to study that more. There are certain places in the state where those kind of things, they just happen naturally. They're a part of it. But there's other places where that's come about because of human interaction and human use. So we have to be careful of that. And I know there's folks behind me that are chomping at the bit to get up here. I don't want to take a whole lot more of your time. I just wanted to show you the kind of things that I've been working on, where that's at...oh, and one last thing. When we talk about 417,000 acre-feet a year, let's think about that for a minute. Right now, down in Texas, if you go around Midland, Texas, and I talked to a gentleman that's down there actually doing the same thing that he did for Western Irrigation where he flew a great big helicopter with a big sonar array that hangs underneath it to measure the aquifers and stuff. Down there, they're doing that all over the place because they have no water anymore. And in Midland, Texas, an acre-foot of water is going from between \$8,000 an acre-foot to \$20,000 an acre-foot. So if you start doing the math, and we don't provide funding for what's going on out here, 417,000 acre-feet, if we have to figure out where to get that and we can't produce it ourselves here in the state, trust me, Colorado has a water marketing mechanism in place. They would be plenty happy...well, no, actually they wouldn't. They don't...money is nothing. It's the water that they want. And so I think that all enters in. Senator Mello, you talked about the bills in their form and how they don't look at the administration and things like that and how that would be worked out. And as I understand it, if we would put this back to the Water Resources Cash Fund that's there, I would think that the administration is already in place and that would all fit into there. Your question about the NET, this is why we're here. We made a promise to those folks when we did that, that we would come back with a legitimate funding request from everybody so that that money could get back to the NET. And I can tell you this, when you talk about it, and I've had conversations moving forward to talk to the folks on the NET, Director Brohman, as well as others, to talk about it. Because what's been happening is they've been bombarded with challenges to where that money is and how that's going to work. I want to work with them to say, okay, let's set this up so that you

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know how much is coming in so that you don't have people fighting over it every single year and trying to take it away from you. So let's set an amount that makes sense and then let's figure out what to do with this other money that's over and above that. And I think that water funding and collaboration with the NET would make...and I don't know if it comes out separately, I don't know if the NET starts to work on a separate water funding bill or anything like that. But those are the kind of conversations that I'm starting to have now in understanding that there's going to have to be more funding come from other places. And with that, I'll stop and I will take any questions that you have. [LB940 LB1046]

SENATOR MELLO: Thank you, Senator Schilz. Are there any questions from the committee? Senator Conrad. [LB940 LB1046]

SENATOR CONRAD: It's not really a question but, Senator Schilz, we've had a chance to serve together in a variety of different capacities and I want to let you know that your testimony here today I think you were at your absolutely best. You were your most passionate, your most articulate, and your concern and care for these critical issues does not go unnoticed by this committee. So we appreciate your work and look forward to continuing the conversation. [LB940 LB1046]

SENATOR SCHILZ: Well, thank you very much. [LB940 LB1046]

SENATOR MELLO: Well, Senator Schilz, I can't let you off that easy. I felt bad. I thought I gave some very measured questions to Senator Carlson, so I'm going to have to...as we discussed this between I think Senator Carlson, Christensen, you, myself, the Speaker, I'm not expert on water and I think the members of the committee understand that as well. But I've had to learn an awful lot about water policy and water funding over the last year and a half. The concern...the question I posed to Senator Carlson, you took a swipe at it as well, is the concern that I would have as an urban lawmaker that we are simply subsidizing the current use of water by building infrastructure and not requiring through regulation or any other means that users have to reduce their water volume well below an arbitrarily, I would say, 17-year use right now back to the 1997 levels. How do you address that question a little bit more in detail? I know Senator Carlson took a...tried to answer it as well. But generally speaking, I mean, the request that had been brought forward, both ongoing General Funds and one-time Cash Reserve funding, how do you explain this to urban taxpayers, urban lawmakers, that we are simply not paying for infrastructure in rural Nebraska so that they can keep using the same amount of water they're using now and really deal with long-term water conservation policies? [LB940 LB1046]

SENATOR SCHILZ: Right. And I appreciate the question and I think that it's to a level of degrees. Okay? As you move from west to east across the state, there is more geographical difference in that than from Omaha to the East Coast. Okay? So the water

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problems that happen here in Lincoln, Omaha, the eastern third of the state, are much different, at times, most of the time, than the water issues that we see out west. Obviously water scarcity is a huge issue out there. Here's the interesting part though. If you go out and you measure the water that is in excess of what is necessary to have for in-stream flows and things like that, for species and stuff like that, and I know you can't capture all of this, but there is enough excess water out there, both running down the river and falling on the state of Nebraska, to allow us the same uses we have today. Now, we're not going to be able to capture all of that. So yes, absolutely, we're going to have to look at regulation and how that fits. But I think we can mitigate a lot of that regulation through these kind of practices. And let me tell you this: When you run out of water, that's when the lawsuits start flying. That's when it really starts costing money and that's when you just run into problems. Because eventually what will happen is that that will come back to affect all of us in our taxes. If we don't have enough water to maintain the economies that are out there...and I'm not saying that they're going to be the same as they are today, but if we don't maintain those economies out there, the tax burden on everybody else will go up, and that's important. I think we've heard before that water is the issue of the decade. Water funding needs to go along with that. This is the first attempt in the last ten years, and I think for about ten years we've heard that water is the issue of the decade. This is the first attempt to put funding towards that, and I am all for it. And I think that by doing this we actually provide opportunities, first, with the money itself for some property tax relief. But in the future there can be opportunities to mitigate property tax even further, if done correctly. I was thinking about this and I think it's important: When you talk about how do we trust that, what were doing out here makes sense. And as we talked in the task force, and I don't know if it made it into the copy or not, but we talked about creating a legislative council that would consist of the Appropriations Chair, the Revenue Chair, the Natural Resources Chair, and the Ag Chair, and whoever else wants to show up, to talk about how we're spending that money every year to make sure that we understand that it's going to a good purpose and to start to bring into focus for this Legislature the importance of water funding for the state of Nebraska and for everybody that lives within here. So regulations are going to have to be part of it. Projects are going to have to be part of it. All of this has to work together to pull this off. Just one little more...one other fact that I think is interesting to think about, and I don't have the numbers exactly right but you'll get the picture. Awhile back, in Colorado, they had a huge rainstorm that washed out a petrified forest, and they had about 1,200 to 1,500 years' worth of data in those tree rings, right? During that time there were about 30 droughts. Okay? Maybe more. I can't remember for sure. The longest one lasted almost 30 years. So the question is, have we managed our water well enough at the state of Nebraska to withstand a 30-year drought? And the answer is no. But we have the capacity to get ourselves close to that if we all work together; but it does take money. And when we talk about it, it is about priorities. And I know there's other things that are out there that need a lot of money. We know that. I can tell you this: We are working right now on a project that I'm extremely excited about through, and there will be others here that I see that maybe can talk about this, but we're talking

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about doing on-farm technology and Mr. Paulman that's here, he's worked on that a lot, as to how to reduce on-farm deliveries of water and still produce the same crops that are out there. So it's happening now. The question is, we have to remember that the water belongs to the state of Nebraska and we can't just continue to tell folks, hey, go ahead and pay for it locally and then continue to regulate them down more and more, because usually when I pay for something, I like to get the benefits of that. I don't like to just pay for it and then have it taken away. And that's what's happening at times out there. Now, if the state of Nebraska steps up and puts that forward, well, then it takes that argument away a little bit as well. And I think it's important for the state to be a good partner in this. So thank you very much. I hope that answered your question. [LB940 LB1046]

SENATOR MELLO: You answered a good chunk of it and I appreciate that. [LB940 LB1046]

SENATOR SCHILZ: Okay. And we can get together later too. [LB940 LB1046]

SENATOR MELLO: I do raise the issue, and maybe I imagine we have some letters of support from some of the NRDs around the state and maybe it's something I can ask Dean when he comes up, assuming he comes up, is the conversation you raised about property taxes in the sense of trying to look at this through a property tax relief lens. The question I would pose is, one, are all NRDs across the state right now at their levy limit? Are all the NRDs who are eligible to levy an occupation tax on water users, are they levying it; are they levying it at the full amount? And if...kind of that gives a good context, I think, for this committee and for us all to consider that. [LB940 LB1046]

SENATOR SCHILZ: Right. And I will tell you this, if they're going to do any of these projects we're talking about, chances are they're going to have to have the occupation tax. Otherwise, it's just not going to work. [LB940 LB1046]

SENATOR MELLO: Okay. [LB940 LB1046]

SENATOR SCHILZ: And so you're going to have to look at that as well. So we understand that we have to pay our share. We get that. We know that. [LB940 LB1046]

SENATOR MELLO: Okay. [LB940 LB1046]

SENATOR SCHILZ: And we understand that water flows downhill and it better be there to flow downhill; otherwise, we aren't going to have an opportunity in the future. [LB940 LB1046]

SENATOR MELLO: Okay. Any other questions from the committee? Seeing none, thank you, Senator Schilz. [LB940 LB1046]

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SENATOR SCHILZ: Thank you very much. [LB940 LB1046]

SENATOR MELLO: We will first take proponents for either LB940 or LB1046 or both bills. [LB940 LB1046]

RORIC PAULMAN: (Exhibit 10) Good evening, as you well stated there, Senator Mello. And thank you for the opportunity today to visit a little bit with you on the Appropriations. My name is Roric Paulman, R-o-r-i-c P-a-u-l-m-a-n. I'm an ag producer from Lincoln County, born and raised there. I farm in the Upper, the Middle Republican, and also the Twin Platte NRD. I've been a part of several stakeholder groups for development of IMPs, not only at the NRD level but also at the...for the state on the overappropriated portion of the Platte River, and for some time now have been involved in water for over 10 years or 11 years, and it started in really firm time when NPPD proposed their well field around Gerald Gentleman Station. And they reached out to talk to us as producers and said, hey, we've got to have water here to run this station; it's an important asset to the rest of the state to provide electricity. And along that way we had some really frank conversations about not only impacts but more importantly the process about mitigation, about conflict resolution, about surface and groundwater. I rely primarily on groundwater but I grew up in a surface water system. I was part of siphon tubes and gated pipe as Senator Schilz alluded to. But really what I got excited about and got involved with the task force, I was a cochair, and I wanted to be on that committee and I worked really hard to look at it and have a perspective that says, hey, we're all in this together; that there is a bottom line to this and how do we sort this out. I've sat in meetings where surface water guys wouldn't talk to each other. I've sat in meetings where municipals are concerned about quality issues, that are upstream, about feedlots and farmers with nitrates, and all of the reasons that you've heard today about those kinds of interactions. And the task force took that seriously and we took 30 days, roughly, a little less than that out of our lives, during corn harvest, to address these issues across the state and have those conversations. And they were tough. The representation was tough. Who's going to be there? Who's going to be a part of that? And why should you have any more say than I do when you look a lot to specific reaches or areas about more responsibility? There's a big target on ag. Why wouldn't there be? I mean, you can toss that number around all day that we're a big user. But also we contribute and we look at it and we address those issues daily. It's a business. It's a livelihood. It's rural Nebraska. It's also municipal Nebraska. And so I've been involved in this long enough that I saw value in that interaction that the surface water guys and municipals and everybody finally had a frank discussion about makeup, about funding, about needs. And everybody talked about it and we fleshed that out, and that process about how do you get the money. At every meeting, my first question was to a presenter is, do you have access to the NRDF funds--Natural Resources Development Funds? And without exception they all answered, and without exception it was pretty much in the eastern part of the state they have access to that money. And so I'm a western guy and there's

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a project in the North Platte NRD that was quite telling, that they took upon themselves, and it's a recharge project that on the end of an irrigation ditch that these two farmers said, hey, I'm in, I want to be a part of this; can we get a little bit of funding? And they did it and they figured how to put a little bit of water in the western end in the state...where's the best place to put water? I'd ask myself that. Well, if it starts there and we can get it all the way down here, there's a whole bunch of opportunities to capture or make beneficial use. I can't say enough about the process. I am firmly in tune with it in relationship to whose on there, how they're going to determine it, and the criteria. It's going to sort it out. Those projects are going to come to the surface. Nebraskans are kind of a "back of the napkin," so to speak, as those ideas, once we have that interest and that trust from this level that says, hey, we're in it for the long haul and we can reach out or if we can extend those kinds of opportunities, we're going to be there and we're going to be there in a big way. With that, I'd entertain any questions and keep it brief. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony. Are there any questions from the committee? I've got one. As chair of the LB517 task force, that was the commission you were referring to? [LB940 LB1046]

RORIC PAULMAN: Vice chair. [LB940 LB1046]

SENATOR MELLO: Vice chair? [LB940 LB1046]

RORIC PAULMAN: Yes. [LB940 LB1046]

SENATOR MELLO: Where did the conversation go from your perspective as a committee member in regards to the sacrifice it's going to take from all water users to make sustainability...long-term sustainability a reality? Where was the conversation, if you could share with our committee, since we were not able to participate? And I'm not saying we weren't invited. I know Senator Carlson invited us all the time if we wanted to go. But could you share with us a little from your perspective on that? [LB940 LB1046]

RORIC PAULMAN: You bet. I'm going to give you a real-life kind of an explanation to that, is I operate in the Middle Republican NRD, about a third of the farm. And we operate under an allocation process, and that allocation is over a five-year period. But there's rules about what happens if the needs aren't met at the Kansas border. And that's a compact call year. And this year they came into...well, excuse me, for 2013 they came into the year and said, hey guys, we can't honor that because of the compact call, because of an obligation that the state has put us into, and we're going to cut you back. Okay. We waited and we waited. And finally we got a determination that we are going to go with 10.8 inches and a hard cap, that there's a penalty that if you overuse that. Well, for the most part, the producers under that ruling allocation, that is an incentive to save; that that allows you the structure to kind of move back and forth and change your

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cropping rotation based on a lot of things, whether it's the value of the crop, or more importantly, the consumptive use that's with it, because that really is your question about changing behavior. And truly what that means in reducing use. That's the tool in that particular instance. Well, 10.8 inches, you know, the average basin...and don't quote me, but it's under 10; but when it doesn't rain, it could be 15, it could be 17. But by your efforts, your conservation efforts, under the original plan, you've got to use some of that saved water to mitigate that change in basically rainfall--precip. And all at once you're going, gosh, you know, how are we going to do this? What's out there? Well, there are technologies, there are practices, there are tillages, there's conservation that you can get there; but that's at the lower level of the limit. I mean you truly...there was some not so friendly outcomes as a result of that from producers and people in that region that it wasn't good. It really wasn't. Our yields were reduced but they were acceptable. It's not what I wanted to do. It's not what I invested in. But it is...it was acceptable. And so those conversations were all the time. And so that trust, that investment, those technologies are out there, Senator, in a big way. And how do you...your question is great: How do you get that out across the whole state and across the whole landscape? And I see this, not only the funding but the vehicle and the process and the evaluation of the projects to sort those out, that some of those kinds of initiatives would rise to the top; that producers in Senator Harms's area, they're already doing some of those things and they're great things; so when it does happen in northeast Nebraska, they can reach out to those same producers and say, hey, how did you get there; how did you do that with only 4-5 inches of water? It is available and that is happening for whatever reasons. And one more point is I'm paying a tax and I'm also paying an occupation tax in the Middle Republican. And I guess I trusted the people that were in charge of that, that again that I had some level of integrity in my operation, knowing that I am obligated to compact call and to the Republican River Basin. But if I'm going to pay that, where is my call; where is my cry? Is I go back to the local entity and say, gosh guys, what are we going to do about this next? Hence, other projects and other interactions. And that is my vehicle. I can go to that local NRD board and express my concerns. But also say, hey, there's some other things out here that we can help these guys and help the state make a better reduction or asking on just what you asked for, is how do you change that behavior and how do you all have an acceptable expectation that if you're going to invest in this that we're going to reduce our use? I think it's a fair question. Long story. [LB940 LB1046]

SENATOR MELLO: No, it's great. Great. A great response. Thank you. Any questions from the committee? Seeing none, thank you. [LB940 LB1046]

RORIC PAULMAN: Yes. Thank you. [LB940 LB1046]

SENATOR MELLO: Next proponent for LB940 and LB1046. [LB940 LB1046]

MACE HACK: (Exhibits 11 and 12) Mr. Chairman, members of the Appropriations

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Committee, my name is Mace Hack, M-a-c-e H-a-c-k. I am the state director for The Nature Conservancy in Nebraska. I'm here today to provide testimony in support of LB940 and LB1046 on behalf of the 4,500 member households of The Nature Conservancy. The Nature Conservancy is a leading conservation organization working around the world to protect ecologically important lands and waters for nature and people. The sustainable use of our natural resources, especially water, has been a strong focus of our work in Nebraska over the past 35 years. We support these bills because we trust in the work conducted last fall by the Water Funding Task Force, and we trust in the recommendations made by this task force to the Legislature. One of our staff, John Heaston, had the honor of being asked by the Governor to represent wildlife interests on the task force. So consequently, we've been very deeply involved in the conversations and the work of the task force and the recommendations that came out of it. And I think as a package, these two bills plus the bill introduced by Senator Carlson that would reform the Natural Resources Commission and provide a new process for allocating these projects, together is a package we really trust that that is a new way of doing business for solving some of the chronic shortfalls we have in supporting our water management in Nebraska for greater sustainability. I'm going to go off script a little bit and for the sake of brevity. You know, Senator Mello, Mr. Chairman, I recognize your question about skepticism. I think it's a very good question. And we represent, our members are rural and our members are urban, and we've been in the trenches on water issues for 35 years in this state. We also sit on the Platte River Governance Committee that Senator Schilz mentioned. We've been there trying to work out creative solutions with a variety of stakeholders. We work in western Nebraska with the irrigators helping them become more efficient, putting more water in the ground, etcetera. So we have a lot on the ground experience. I would say, in answer to your question, urban water users have as many problems as agricultural water users with respect to water quality, with respect to protection from flood risks. We're very involved in the Missouri River. We saw unprecedented floods in the Missouri River. So I think there's actually a lot of water projects that would merit...that would meet the criteria of the Water Funding Task Force for support that would directly impact the lives of our urban constituents. With respect to sort of the skepticism, why isn't this just a way to use more water, I would say that there is some trust there, for sure. But I'm encouraged by the unprecedented coalition that this task force represented. Traditionally, wildlife and recreation interests have not been at the table on some of our biggest water policy issues. They were expressly invited in this case. I think the unity that has come out of the task force is a very refreshing way to approach our biggest problems with water in this state, and they require a very collaborative approach. We are a "glass half full" kind of organization. We're going to try to find creative, innovative solutions that work through partnerships. And I think this task force, the recommendations really represent a path forward from the status quo, which I don't think is sustainable or acceptable to anyone. So I just want to address that directly. I also would like to mention that...I passed around a letter that a number of other conservation organizations signed on to, and I just want to represent their voices here today as well. Collectively, we represent about 25,000

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members around the state. That includes Ducks Unlimited, the Nebraska Division of Izaak Walton League of America, the Nebraska League of Conservation Voters, Nebraska Land Trust, Trout Unlimited 710, Audubon Nebraska, The Groundwater Foundation, Nebraska Sportsmen's Foundation. And really, the letter makes three points: that we really need to commit to comprehensive planning. Senator Harms, your question about research and science I think is fundamental to getting this right. And so we want to really see commitment to planning as well as the infrastructure projects; that we would ask agency review by the Game and Parks Commission for compliance with the Endangered Species Act on any projects; and that really making any decisions includes those stakeholders of wildlife conservation, and recreation. And as a group we are unified in supporting those three principles and supporting these bills as a package with Senator Carlson's bill on making some changes in the Natural Resources Commission. So thank you for your attention today. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony, Mace. Are there any questions from the committee? Seeing none, thank you. Next proponent for LB940 and LB1046. [LB940 LB1046]

SCOTT SMATHERS: (Exhibit 13) Good evening, Senator Mello, members of the committee. My name is Scott Smathers, S-c-o-t-t S-m-a-t-h-e-r-s. I am the executive director of the Nebraska Sportsmen's Foundation and I'm here today to testify on behalf and in support of LB1046 and LB940 in regards to our 4,700 members in this state. In addition to that, I was also appointed by the Governor to the Water Funding Task Force, as a result of LB517, as the outdoor recreational user representative on that committee. I am pleased that we had the opportunity today. The events of the last six months were probably the most profound and most important prospect that I've done in my entire career, whether that was corporate America or my involvement in the outdoor industry. As Roric Paulman stated, I'm sure...I'm not sure if all of you are familiar with it, but the very first meeting our fearless chairman, Clint Johannes, who I know has aged many years since this process began, we agreed to consensus. You are state senators in a 49-member body. You understand what it takes to get 27 members of diverse backgrounds, needs, styles, and desires to agree to consensus for a six-month period on every single issue. We are a better group of people coming out of it. We are better friends, better enemies, and yet we have found an avenue in a direction with LB940, LB1046, and the companion bill of LB1098 that established what took place through the Water Funding Task Force, is to review the current criteria used by the NRDs, the DNRs, and the NRC committee to make improvements and suggestions to make a broader base of users and broader multiuse projects which cover a multitude of projects and issues; to create a larger task force and management body that incorporates, again as Mace stated too, to include more municipalities, outdoor rec users, wildlife conservation; and third, is to do what LB962 did not do and any prior committee has not committed to, is a funding source to carry out a drastic need we have in our state. I have passed to you...excuse me, I've been here for a day and a half without any water,

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so that water is crucial, I can tell you. Pass out to you what sportsmen represent from an economic standpoint to the state of Nebraska. As you can see, there's 289,000, roughly, from the 2011 report that came from Southwick Associates and the NSSF--the Shooting Sports Foundation. And we represent roughly \$740 million a year in annual spending in our state. We also understand that ag is the number one producer in our state. There's an old saying: The speed of the team moves at the speed of the leader. Ag is the speed of the leader in our state, which all the benefits that result from that, from the municipality standpoint--and again, I'm a Lincoln resident, folks. I live in south Lincoln. I have lived in south Lincoln for 35 years. I am a farmer on the weekends with a bad pair of overalls. We understand, 2012, when the drought occurred, there was less than 2 feet of water flowing through our only well pumps in the Ashland Water Flats. And my neighbors complained they couldn't water their grass every single day. That reality went off for me: we have a problem. We have a lack of connection. We have a lack of reality. I'm here today to tell you the sportsmen, who are fiscally conservative by nature, trust me, I deal with them on a regular basis and have for six years, we believe in this package. We understand \$50 million is a large sum of money. It is not a laughing matter or a matter to be taken lightly. But the question I ask for this panel and I ask for this body to examine is to look around to some other states. The state of Texas has been mining water for years and have depleted their water supply to the point of they just approved a \$200 million one-time grab of general funds. It makes \$50 million look pretty small, doesn't it? Look at the state of California. The state of agriculture in the state of California is all but dead. The same governor who presided 30 years ago when the water issues were presented; and what was done? Zero. Thirty years later what's happened in the state of California? I don't think anybody in this room, this body, or this committee wants to face those issues a year from now, five years from now, or ten years from now. I am counting on the fact that this committee, this body, helping my children and my grandchildren when they reach for that bottle of water, it's there. When they want to buy something, it's there. With that, I appreciate it and I'll answer any questions you have. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony, Scott. Are there any questions from the committee? Seeing none, thank you. [LB940 LB1046]

SCOTT SMATHERS: Thank you. [LB940 LB1046]

SENATOR MELLO: Next proponent for LB940 and LB1046. [LB940 LB1046]

SHELLEY SAHLING-ZART: Good evening, Senator Mello and members of the Appropriations Committee. My name is Shelley Sahling-Zart, S-h-e-l-l-e-y S-a-h-l-i-n-g hyphen Z-a-r-t. I am vice president and general counsel for Lincoln Electric System, the municipal electric utility serving the capital city and the surrounding area; and I'm here today on behalf of the Nebraska Power Association, which is a voluntary association representing all of Nebraska's publicly owned electric utilities, including municipalities,

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public power districts, rural public power districts, public power and irrigation districts, and rural cooperatives. We're here today testifying in support of both LB940 and LB1046. And as I sit here and listen to it, it struck me, you don't need to make water a priority. This body already made water a priority when it passed LB517. These bills are really about sealing the deal. The task force did what you directed and asked them to do, and they did a great job of that. I mean, to reach consensus, the gentleman was correct, that's a huge deal. And I commend the task force for having done that in the time frame they did it. And now they've brought you a strategic water plan. They've given you a recommendation for funding. And you do have the task of trying to decide what that level of funding should be. I don't think it's a matter of whether there should be funding. It's probably more a level of what the level should be, and it's time to seal that deal. Now water is a priority. Why am I here? Water and power kind of go hand in hand. Number one, they're both incredibly essential economic drivers. Water sustains life. Power, in many ways, sustains life. Water is used pretty significantly in the generation of power. We use it for cooling purposes in our power plants. We are users of water. We aren't consumers of water. That water is a once-through cooling that is typically sent downstream for other uses. Senator Mello, I wanted to touch on something, and Senator Harms, this touches on a question you had earlier about sustainability. I want to tell you about a little project we did here in Lincoln. We have a combined cycle, about 170 megawatt power plant up by our wind turbines that you've probably seen. You can't see the power plant. We needed cooling water for that when we built it about ten years ago. And there isn't a great groundwater source near that site. So we had some pretty bright engineers that got together and worked with the city, and we are piping the effluent from the water treatment facility in Lincoln. We are treating it on site. We are taking it down to its purest form. We are using it for cooling water. We're holding it and we send it back to the city. Talk about sustainable. We didn't use groundwater for that. It was a pretty ingenious kind of sustainable technology. And Senator Harms, to your point, I think those are the types of water management projects that this funding can help identify; that we're not tapping into new groundwater sources, but figuring out how to use the ones we already have. The Antelope Valley Flood Control Project here in Lincoln, another great water management project which we probably should have all been walking down this afternoon instead of sitting in warm hearing room. You know, water is incredibly important to power. It's incredibly important to all of you. I don't think that's at issue here today. It's about funding and we strongly urge you to provide the funding necessary to carry out the recommendations of this task force that has admirably done its job. I'd be happy to entertain any questions. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony today, Shelley. Are there any questions from the committee? Seeing none, thank you. [LB940 LB1046]

SHELLEY SAHLING-ZART: Thank you. [LB940 LB1046]

SENATOR MELLO: Next proponent. [LB940 LB1046]

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JAY REMPE: We are drawing straws here, so. Senator Mello, members of the Appropriations Committee, my name is Jay Rempe; that's J-a-y R-e-m-p-e. I am vice president of governmental relations for Nebraska Farm Bureau. I'm here today on behalf of Nebraska Farm Bureau in support of both LB940 and LB1046. I'm also, in the interest of time, I'm here on behalf of several other organizations and I will read them here so their name is on the record. But I'm also here on behalf of Nebraska Cattlemen, Nebraska Corn Growers, Nebraska Pork Producers, Nebraska Sorghum Growers, Nebraska Soybean Association, Nebraska Cooperative Council, and the Nebraska Wheat Growers, and we are all in support of these two bills in front of you today. I'll just be real brief because I know it's getting late in the day. Ag, we've been working very hard with a lot of different stakeholders and groups over the years on not only the water funding challenges but the water challenges in general. And we think the work that the task force has done provides...brings to you a balanced approach to funding in trying to address these challenges that we face. And we say balanced in the sense that as earlier testifiers have already mentioned, it brings to both local resources, the state resources, and potentially federal resources, to try to address some of these challenges. And I think, in a nutshell, the way I think of the challenges that we face, is Nebraska, we have two critical challenges in the way we try to manage our water and use our water resources. One is the variability that we face, not only precipitation across the state and where it falls, but as 2012 and 2011 demonstrated, the amount of precipitation that we get in any given year. So we're trying to manage for that. Secondly, as somebody has said...or somebody told me this, I can't attribute it to myself, but that God got the plumbing screwed up in Nebraska. And that is in relation to our groundwater and surface water, that when we pump our groundwater it pulls water out of the streams and we have depletions there. And so if God would have reconfigured that where we pull off the bottom of the aquifer, we wouldn't have any problems. So those are the two overriding challenges that we're trying to address. And I think that, if you look at all these projects and these programs and the activities that are proposed by the task force, we're getting at those two critical issues. And it's a multifaceted problem that's going to take a multifaceted approach. Senator Mello, you asked about regulations and conservation, and those are critical elements to that and I know over the last 10-15 years ag has made great strides in trying to make better use of our water resources. But I think part of what we can't lose sight of, as well, is not only those are critical measures. But if we can do this right, I think we can take and free up more of our water resources to make beneficial use of those, to maximize those beneficial uses and grow the economy even greater in the state of Nebraska. And I think ultimately that's what we're trying to get at here. So with that, I would be happy to answer any questions that the senators might have. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony today, Jay. Are there any questions from the committee? Seeing none, thank you. [LB940 LB1046]

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JAY REMPE: Yes. [LB940 LB1046]

JOHN WINKLER: (Exhibits 14-19) Chairman Mello and members of the committee, my name is John Winkler, J-o-h-n W-i-n-k-l-e-r. I am the general manager of the Papio-Missouri River Natural Resources District. In addition, I am testifying on behalf of the Nebraska Association of Resource Districts. As part of my testimony I'd like to read into the record letters of support from the Nemaha NRD, the Twin Platte NRD, Central Platte NRD, North Platte NRD, and the city of Bellevue. Obviously, we are in support of LB1046 and LB940. And I had a written testimony but with respect to your time I won't go through it word by word. Obviously, we have two sides of the coin. In the NRD we have agricultural. It is well documented we are the number one irrigated state in the nation, and we're the third largest corn producer in the nation. And the other side of the coin is flood control. We have 24,000 miles of streams and rivers. And so not only are we dealing with groundwater, but we're dealing with, and many times, especially in the eastern part of the state, too much surface water. Specifically, it was mentioned the 2011 flooding event along the Missouri River. Currently, the district is dealing with, which has also been stated, a \$24 million FEMA mandate to bring the levees that protect not only Offutt Air Force Base but the city of Omaha's wastewater treatment plant as well as the new U.S. Highway 34 bridge and approach, as well as thousands of acres of agricultural land and residential properties, to bring that into compliance. The issue there is if you don't bring it into compliance, FEMA redraws the flood plain map as though that levee doesn't exist. This would obviously have major impacts on Offutt Air Force Base, any future mission, and also any...its very existence. So that is a huge issue for our NRD, and obviously agriculture is a huge issue for the remaining NRDs in the state. So obviously we appreciate your support. I'd be happy to answer any questions. This is again it's a critical issue. The time is now to act. The Water Funding Task Force did a fantastic job in bringing all of these diverse groups together, and I think you're seeing the results of that today. There isn't any more that I could add that anyone else hasn't. And again, if you have anything specific, I'd be more than happy to answer. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony today, John. Are there any questions from the committee? I've got one in respects to the levee project around Offutt and Bellevue. My office has been in conversations with various parties, and could you share with us a little background in regards to where our federal delegation is. I know we have a U.S. Senator on the Armed Forces Committee and another Senator currently on the Appropriations Committee. Where are our U.S. Senators and our two Congress Representatives who represent the area, where they're at in regards to dealing with this unfunded federal mandate and whether or not they're able to provide directing funding towards this project and/or regulatory flexibility? [LB940 LB1046]

JOHN WINKLER: Sure. They are obviously aware of the situation. We've had various meetings with the command at Offutt Air Force Base, base commander, and they also

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bring it up to not only to the attention of the United States Senators but the Congressional delegation as well. We've had several meetings with Senator Fischer and Senator Johanns and Lee Terry and Jeff Fortenberry and Adrian, and we've also had several meetings with FEMA. In fact, a delegation from the city of Bellevue and the Metro Area Planning Agency recently went on a trip to Washington, D.C., and presented the information to FEMA where we're at. Our staff met with FEMA last Friday from the region, Region 7, which covers Nebraska. And they were aware obviously of our meetings, our conversations, and they said it's best if you continue to plan that you have to rehab these levees. And by the way, you will be getting a provisional accreditation letter next fall. What that does is once you get that letter you have two years to complete the rehab or FEMA will remap the area as though those levees don't exist. Our Congressional delegation has tried to insert language into the WRDA bill, which is the Water Resources Development Act, which is currently being debated in Congress. The only thing that that does allow is it may allow the Corps to help fund rehab projects, but it doesn't obligate any funds. So what the Corps and FEMA has said is there's no federal money; don't count on any federal money because federal mandates won't stop but our funding will. And so you need to approach it, which we have been with our partners with the Legislature, with DOD, with everyone we can talk to, this is ours; these are your levees per agreement with the Corps; they're your responsibility; you will fund these mandates. And so we hold out very little hope there will be federal money, and when you have the federal agencies saying you're going to get this letter, we are proceeding; so you better plan as though you need to rehab it. We're approaching with that. And so our Congressional delegation continues to work to try to find federal money or to try to change law or to try to change policy of federal agencies, but up to this point it's not been successful. I hope that answers your question. [LB940 LB1046]

SENATOR MELLO: It does. It's disappointing; but yes, it does. Any questions...any other questions from the committee? Seeing none, thank you. [LB940 LB1046]

JOHN WINKLER: Okay. Thank you. [LB940 LB1046]

SENATOR MELLO: Well, John, I'm going to give you one answer and... [LB940 LB1046]

JOHN WINKLER: Okay, okay. [LB940 LB1046]

SENATOR MELLO: ...because I know you are representing one NRD, it's something that I'm more than willing to allow the entire association to provide feedback to the committee on. I asked a question earlier of Senator Schilz in regards to the number of NRDs across the state that are at their levy limit right now and the number of NRDs across the state that are at their occupation tax levy limit. [LB940 LB1046]

JOHN WINKLER: Right. [LB940 LB1046]

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SENATOR MELLO: If you...I'm looking over at Dean over there more than you. If he could provide the committee that background information, that would be very helpful. [LB940 LB1046]

JOHN WINKLER: I don't know exactly the numbers, but not everyone is at their levy limit. And again, I think that we keep that cushion to this is a perfect example of if you've got a willing partner, for example, the state of Nebraska or a local municipality, we do a very good job of partnering; then you have that ability to match those funds. And I think if everybody was at their mill levy limit, then we'd have some problems with the matches. [LB940 LB1046]

SENATOR MELLO: Okay. All right, thank you, John. [LB940 LB1046]

JOHN WINKLER: Thank you. [LB940 LB1046]

SENATOR MELLO: Next proponents for LB940 and LB1046. [LB940 LB1046]

JOHN TURNBULL: (Exhibits 20 and 21) Chairman Mello and Senators, I'm John C. Turnbull, the general manager of the Upper Big Blue Natural Resources District; that's J-o-h-n, middle initial C., T-u-r-n-b-u-l-l, headquartered at York, here today to testify in support of LB940 and LB1046. LB940 we think is an important bill because it really is intended to clear up the backlog of projects that's in the Resources Development Fund. We need to get those cleared out before new projects really can be funded. I want to spend most of my time talking about LB1046. We do support LB1046. We think there is a need for water sustainability projects in the state of Nebraska. Major projects will become a rally...there is a strong need, political support, and, of course, sufficient funding. And that's why we think that the Water Sustainability Fund or something like that ought to be established. I want to point out an example that we are currently dealing with, along with the Little Blue Natural Resources District, our neighbor to our southwest, and that's working with the city of Hastings. They have a major problem with nitrate contamination of their city well field. We have worked with the city to establish regulations in the groundwater protection area, wellhead protection area, along with the Little Blue NRD, to help control the nitrate contamination. The city is still faced with a major construction project for water treatment. We met with them a week ago Friday. They expect their costs to be \$46 million over the next six years, and that's for a city of 25,000 people; so that's a huge load for that city. They, of course, turned to both NRDs and asked for financial help. They asked us if we would split that amount, a third and a third and a third. Our budget is, we can't get there from here. So we think that this is a potential source of funding for some assistance for cities like Hastings and other communities around the state that are faced with nitrate problems. Seward has built a treatment plant. Other ones are going to happen. I am concerned about small communities of 250 to 500 people that cannot afford one themselves, or we're going to

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have to work with them to make joint projects between several communities and it's going to take us at the NRD level to help fund that, plan it, and get those things going. We think that raising funds is never easy but it's funding to all of us in the state. I think on the regulatory side the Upper Big Blue has had a groundwater management area since late 1977. NRD regulations have been in place and in force since 1979. The latest changes went into effect February 1, just a few days ago, that regulate the water use on 1,200,000 irrigated acres in our district. And I know you had raised questions earlier about regulations and how they fit in this thing, and I thought I'd bring that out in case somebody wanted to ask some questions. [LB940 LB1046]

SENATOR MELLO: Appreciate your testimony today, John. Is there any questions from the committee? Seeing none, I think we're good. Thank you, John. [LB940 LB1046]

JOHN TURNBULL: Thanks for your time. [LB940 LB1046]

SENATOR MELLO: Next proponent for LB940 and LB1046. [LB940 LB1046]

JEFF BUETTNER: (Exhibit 22) Good evening, Chairman Mello and members of the committee. I almost said good afternoon, but it's getting dark outside. My name is Jeff Buettner, J-e-f-f B-u-e-t-t-n-e-r, and I am representing the Central Nebraska Public Power and Irrigation District. We are the owner-operator of Lake McConaughy and the associated irrigation and hydroelectric project, and we're here to support LB1046 as well as LB940 and also commend Senator Carlson and Senator Schilz for their efforts to ensure sustainable water supplies. One of the advantages of going this late in the day is I can sit up here and say I agree with all the proponents who have gone up before me. That will save me a little bit of time because I can skip most of this. But let me frame our situation a little bit differently. Part of the problem Nebraska has in managing its water can be traced to the way water law developed in the state of Nebraska. Surface water is regulated according to appropriated rights; that is surface water is apportioned according to first in time, first in rights. Appropriators with the most senior rights are entitled to their supply. Then the next appropriator receives his water, and so on. The system is part of Nebraska's Constitution, and appropriations were issued by the Department of Natural Resources--or actually, its predecessor. Groundwater development, which occurred after surface water was in place, is subject to correlative rights which allow the use of groundwater based on the premise that if shortages occur those using that groundwater will share the shortage. Permits for groundwater wells are issued by the natural resources districts. Both surface water appropriations and groundwater permits are legal rights to use water. However, in some cases, DNR and the NRDs have issued permits that, in effect, are for the same bucket of water. In wet years there's no problem. However, in dry years and average years, the water supply for one set of users--typically, surface water users--is often reduced. An analogy, it would be like a courthouse granting deeds for two pieces of property and then standing back and hoping that the landowners work it out. However, this isn't about two pieces of

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property. This is about hundreds of thousands of irrigated acres as well as the recreational, wildlife, municipal, and hydroelectric benefits that come from our rivers and reservoirs. Put simply, conflicts have resulted from an incomplete understanding of the impacts of groundwater uses on surface water appropriation when the laws were being written. That hydrologic connection between the two was not as well understood as it is today. A dedicated source of funding from the state would facilitate programs and projects and activities designed to address sustainability of both. It is often said that water is Nebraska's most precious natural resource, and it's time to make an investment in that resource that will help sustain our water supplies now and for in the future. Thank you. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony tonight, Jeff. Are there any questions from the committee? Seeing none, thank you. [LB940 LB1046]

JEFF BUETTNER: Thank you. [LB940 LB1046]

SENATOR MELLO: Next proponent for LB940 and LB1046. [LB940 LB1046]

LORAN SCHMIT: (Exhibit 23) Good afternoon, Chairman Mello. This has been such a continual hearing I'm almost reluctant to testify. But in any event, I'm going to make new remarks. My name is Loran Schmit. I'm speaking here today on behalf of the Association of Nebraska Ethanol Producers. I want to commend Senator Carlson and Senator Schilz and the other committee members for their authorship of LB940 and LB1046. The Water Funding Committee gathered information from across the state to determine both the immediate needs and long-term actions that must be taken if the Nebraska Legislature is to develop a policy that will sustain Nebraska's most valuable resource--water. The Sustainability Committee has prioritized projects which in their opinion deserve state financial support. Some of these projects need immediate attention and some are less critical. We do not propose to second-guess the evaluation of the committee. We do want to commend the committee for recognizing that some of these projects deserve some state support. We appreciate very much that Senator Carlson, Senator Schilz, and other committee members recommend that these projects be funded by the General Fund. We hope that a majority of the Legislature will agree. This is not exactly my first hearing in this area, and Mr. Buettner has referred to the share and share alike legislation which was enacted many years ago. It was a very controversial item at that time because farmers came and testified before the Natural Resources Committee that I have invested \$70,000 in my irrigation system and that doggone neighbor of mine now wants to put in a well and there's not enough water for both of us. And the Legislature very wisely at that time said we're all entitled to some of that water and in times of shortage we will share and share alike. It's not like the first in time, first in right for the surface water. And so those policies began a long time ago. When Governor Kerrey was elected I was summoned to his mansion and met with three of Nebraska's leading citizens, and they said if you will pass a water management bill

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we will guarantee you \$50 million--kind of strange corollary isn't it?--\$50 million per year for water projects. We passed the bill. And the water management committee did nothing. It actually sat idle, and all they did was hire some out-of-state attorneys to negotiate the Whooping Crane Trust Settlement that was \$5 million a year. And so I introduced legislation, it was to terminate the committee. Probably the only committee...the only agency that's ever been terminated in the state of Nebraska, but it had to be done because they weren't doing anything. Senator Schilz raised a question that I think needs to be addressed, and that is establish a legislative committee as oversight for this project. The performance of this group will be entirely proportional to the amount of oversight the committee gives the project. Senator Carpenter used to say there is nothing as much fun as spending other people's money. And you all have been around here long enough to know the truth of that. And if we do not watch how it's spent, you will be alarmed and amazed and embarrassed by how some of that money is spent. We have had a lot of good performance by natural resources districts, and I can tell you very frankly that in some cases I am embarrassed by what has been done by some of those districts because they have strayed a long way from the original goal of the natural resources districts. I'm not saying they are not desirable, I'm not saying they're not attractive, but when you spend other people's money you ought to remember what it was originally appropriated for. And so that comment by Senator Schilz, I'm sure he meant it intentionally, should be taken very seriously by this committee, because if you watch how it's spent you're going to get a lot more money...a lot more for your money. Also, and, Senator, the lawyers in this group are more adept to handle this than I am, but there ought to be some method whereby the state establishes our control over that water so that some time in the future some federal judge doesn't decide to send that water to Arizona or Texas or Saudi Arabia. When I first made that speech 30 years ago, eyes were rolled and people smiled, but today it's not so unrealistic. The day will come when our underground water is going to be valued by other states and other nations. So I would hope you would include that. I think that you have established a good system. I think the senators have done a lot of good work. I just hope that you will follow up on it. And one more thing we...you've all have come before you from time to time for more money. And you asked the question, where is it going to come from? We talked about tax relief. Well, Senator, last year I paid my taxes with \$8 corn. This year it's \$4 corn. There's a \$6 billion reduction in the value of Nebraska's corn crop. So we need to be mindful of that, that it isn't just the taxes you folks levy; it is how do we pay them. And so you've done a good job. Urban legislators have been good to rural Nebraska in the last 50 years, and I think that this money will continue that operation. Thank you very much. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony today, Loran. Are there any questions from the committee? [LB940 LB1046]

LORAN SCHMIT: I notice the questions get shorter as the session goes on. (Laughter)  
[LB940 LB1046]

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SENATOR MELLO: Thank you, Loran. Next proponent. [LB940 LB1046]

JOHN MIYOSHI: (Exhibit 24) Senator Mello and members of the Appropriations Committee, my name is John Miyoshi, J-o-h-n M-i-y-o-s-h-i. I'm the general manager at the Lower Platte North NRD, located in Wahoo. Today I'm giving testimony in support of LB940 and LB1046 that creates the Water Sustainability Fund. Nebraska is the number one state in agriculture in our nation. We have an economy that is dependent on supplemental crop water at the needed time. We have a unique system of statutes, laws, rules, and regulations to see that water is wisely used without infringements on the rights of others or on the environment. In this system Nebraska's NRDs have the responsibility of managing the groundwater supplies. Managing groundwater can be an overwhelming task. Fortunately the Legislature does not attempt to put laws in place which would force all irrigators to come up under one set of state statutes and rules, but has empowered the NRDs to manage irrigation on a local level. As with any program, there is a cost to implement and correctly administer our groundwater programs. Attached to my testimony is a graph showing the Lower Platte North water budget expenditures for the past three years. The importance of the graph is to show that 7.6 percent of our total budget is spent on water activities while 22.7 percent of our property taxes has been spent on the same programs. What this shows is that while we are able to leverage many of our property taxes with outside funding, the same leverage is not available with our water programs due to the lack of outside funding opportunities. At one point in time there were corn checkoff funds that were marked to stop supporting ethanol and go to funding water projects in Nebraska. When it came time to begin funding water projects, the Legislature opted to not use the checkoff funds, with the promise that another source of water funding would be found. This promise is what prompted the creation of the Water Funding Task Force and the proposed legislation you are hearing today. For several years the Legislature funded the Integrated Water Management Program Plan that allowed NRDs to cost-share with the state on needed groundwater studies. Most of these studies would not have been accomplished without the seed money from the state. The Lower Platte North cooperated with other NRDs on several basinwide studies, but the individual study we are most proud of is our sub-basin delineation study that we call our groundwater bible. This study separates our NRD into 26 separate areas which are geologically different, with each having their own unique aquifer characteristics. Unfortunately, funding for new studies under this program has ceased. The past two years of drought have forced our NRD to revisit our groundwater rules and regulations. With the assistance of our sub-basin delineation study, we were able to draw boundaries on two special quantity subareas where we are not allowing expansion of irrigation and are imposing irrigation allocations. We have recently hired a consultant to assist us with creating a voluntary integrated water management plan for our management of our groundwater resources in conjunction with our surface water users. We will complete this plan with the Nebraska Department of Natural Resources by the end of 2015. Our NRD is one of seven involved in writing a

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basinwide water management plan. RFPs were mailed within the past few days to begin this planning effort. It is ground-breaking that seven NRDs are voluntarily cooperating on this endeavor. The legislation today is two steps with two separate bills. Many years of planning have gone into getting us to where we are today. LB940 is needed to clean up funding obligations so that LB1046 can begin with a clean slate. The Water Funding Task Force has mapped out a great plan for the future of our state. Now you have the opportunity to make that happen. We urge you to support this needed funding and pass LB940 and LB1046. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony tonight, John. Are there any questions from the committee? Senator Harms. [LB940 LB1046]

SENATOR HARMS: Thank you very much, John, for coming. I am just curious, what did your study cost you that you have on the table? [LB940 LB1046]

JOHN MIYOSHI: \$118,000. [LB940 LB1046]

SENATOR HARMS: Okay. And how long did it take them to complete that? [LB940 LB1046]

JOHN MIYOSHI: About two years. It's a series of maps and it separates our district geologically, aquifer characteristics, water in storage, the availability of that water in storage--just a huge number of facts. One of the good things is it draws the line between those different areas. And so... [LB940 LB1046]

SENATOR HARMS: Who did your study? [LB940 LB1046]

JOHN MIYOSHI: Olsson Associates here in Lincoln performed the study for us. Just a great effort. [LB940 LB1046]

SENATOR HARMS: Okay. Thank you, John. [LB940 LB1046]

SENATOR MELLO: Any other questions from the committee? [LB940 LB1046]

JOHN MIYOSHI: Okay. [LB940 LB1046]

SENATOR MELLO: Seeing none, thank you, John. Next proponent. [LB940 LB1046]

RON WOLF: Chairman Mello and members of the committee, my name is Ron Wolf, R-o-n W-o-l-f. I'm testifying today on behalf of the Nebraska Water Coalition in support of both of these bills, LB940 and LB1046. The coalition, for a quick explanation, is a joining of the Nebraska Water Resources Association and the Nebraska State Irrigation Association. They are two statewide water groups. We are dedicated to appropriate

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management, conservation of both water and land use in this state and through NWRA national. Our interests, we're pretty diverse. There's river basin reps, surface water appropriators, groundwater irrigation, electric power, municipality, industrial, professional, conservation, recreation, and financial institutions on these boards. So it's kind of a pleasure when we all agree on one thing, and the one thing we do agree on is there's some water funding needed for water sustainability. I've got some really beautiful testimony here and you've already heard most of it already, so I'd like to divert from that. Some of this may be personal. If I step on a toe, blame me, not the coalition, please. I detest paying taxes. I don't like it. But it helps if I get something for my money; if I get roads for my gas tax, if I get educated kids from land taxes. And I listened to testimony earlier today regarding job creation money, property tax relief. You guys are in a bind. We all want your money. But I would submit to you one of the best things you can do for economic development in this state is assure a dependable water supply. That's going to be the basis, I don't care if it's light industry, municipal, residential; there it is. There's your economic development. There may be a...I sense some reluctance to use Cash Reserve monies. But savings account money can be invested wisely if you see a payback in the near term future, if it's foreseeable, and I think you will if these funds are made available and used right. I do like the portion of Senator Carlson's bill where there's ongoing funding. Too many times we give the mouse a nibble and then let him starve to death. And to tell you the truth, this is the first nibble that water sustainability may get for quite a while here. There was some discussion there about \$40 million, I believe, some questions during Senator Carlson's introduction--\$50 million--being enough or too much. I can talk a little bit about the one dam I'm familiar with, the Calamus Reservoir, if any of you know it. I do operate and am in charge of maintaining that. That was about a \$72 million project. That was construction costs. You can figure about a 62-68 percent overhead on top of that by the time you involve the state, fed, and local governments. And that doesn't get you the environmental impact statement. So Calamus holds roughly, I'm going to say, 8-10 percent of what McConaughy will. So \$50 million, if you're going to build dams plan on spending some money. Sustainability, I'm sure there's a definition of it, but please remember that sustainability needs to include stream flows. We've got areas in the state where there's groundwater pumping going on and surface water people haven't had water, this will be the second year now. I'd hate to see these funds utilized for an ongoing endless series of studies and data gathering. I think we're at the point where there can be some real projects, as pointed out by the senators, where we can make a real difference. And I congratulate you people on your stamina. I'll quit now. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony tonight, Ron. Are there questions from the committee? Seeing none, thank you. [LB940 LB1046]

RON WOLF: Thank you. [LB940 LB1046]

SENATOR MELLO: Any other proponents for LB940 or LB1046? [LB940 LB1046]

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DEAN EDSON: Chairman Mello and members of the committee, my name is Dean Edson, spelled D-e-a-n E-d-s-o-n. I wasn't originally planning on testifying today, but I thought with some of the questions that got asked I might come up here and maybe try to answer some questions for you. I want to touch on a couple things before we do, and that might prompt some additional questions for you. When you were asking about, are we doing anything to reduce pumping and reduce water usage, we are doing that all across the state. Primarily the one that comes up right away is the Republican River Basin. The Upper Republican NRD put their allocation in back in the late '70s. It was 24 inches. Today it's down to 13. So it's been cut almost in half. Since the settlement agreement, the pumping reduction in the Republican River Basin goal is to reduce it by 20 percent, and we're getting close to that. In the water short year, we had to reduce pumping by an additional 50,000 acre-feet of water. And so those regulations were imposed and that's what previous testifiers were talking about with the hard cap allocations. So those are in place. We have an augmentation project, two augmentation projects in the Republican River Basin: Rock Creek, which is operational; and then N-CORPE, which is the other one that keeps being discussed. I want to be quick and to the point with N-CORPE. N-CORPE was in line to be in operation in 2013. We were sued by the Frenchman-Cambridge Irrigation District and Bostwick Irrigation District in 2013, which stopped the project from moving forward. We just found out from the Department of Natural Resources, had we had that project in operation in 2013 there would not have been a call on the river and the surface water irrigators would have had all of their water, all of their storage water, and had access to their additional groundwater. There wouldn't have been the additional 50,000 acre-feet reduction in pumping. So I want to make that perfectly clear that we are moving forward and doing that. The occupation tax, there are four NRDs that are authorized to use the occupation tax now. You have to incorporate it into your integrated management plan, have to have it approved by the state. Those four NRDs are at their maximum amount of \$10 per irrigated acre and they're obligated for the next 25 years to pay for the N-CORPE project. The funds that we're talking about today, N-CORPE is not eligible for the funding under the \$50 million, so. And the farmers are going to be paying for that augmentation project. In Dawson County, the NRD has worked with four irrigation canals, with Central Platte NRD. There's primarily local NRD funds. We have rehabbed and joined partnership with four irrigation canals in that area. There is no reduction of irrigated acres, but the NRD has either bought one canal out, gone into partnership with the surface water canal on a 50/50 ownership, done a 99-year lease, and trying to finalize the negotiating on the last one. With that, we can take...we have no reduction in irrigated acres, but we take those excess flows from surface water and either leave them in the river when someone else downstream needs them, or if there's excess flows we'll run them through the canal and recharge the groundwater area and then still leave adequate water in the river. These are innovative type ideas where we can get partnerships with the surface water irrigators and the NRDs and groundwater irrigators and come up with some solutions. But that took about \$7.5 million to do that and rehab

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all those canals. It's not cheap. I want to close here quick, but we've got allocations in the South Platte and North Platte NRDs, Upper Niobrara-White, the entire Republican River Basin, Lower Platte South, Lower Platte North, Lower Elkhorn. They're all over the state and they put the allocations in to address the water shortage issues and then help out domestic supplies. We're trying to help out the small and large municipal users, and you've heard that in the testimony. They've come to the NRDs for help. That's part of this package. We have got to keep the economic development going throughout the state in all areas of the state, and the water usage is important out there to those communities. There was a study, and it's included in our testimony that was given previously, 2012 irrigation. Because we could irrigate, \$11 billion was added to our economy. And that's one of the primary reasons why we're sitting here and looking at a Cash Reserve today. So I'll try to answer your questions if you've got any. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony, Dean. Are there any questions from the committee? I've got two: one dealing with tax policy. We heard earlier some of the property tax credit bills, the policies that are in the Revenue Committee that would reduce ag land valuation from 75 percent to 65 percent. I didn't hear you talk about those levy limits on NRDs. If the Legislature was to move in that direction, wouldn't that simply drive water funding that is currently being spent now by NRDs, by lowering the property tax valuation by 10 percent? [LB940 LB1046]

DEAN EDSON: It could. It could. I'm not the tax expert in our family. There's another member of our family that is the tax expert. [LB940 LB1046]

SENATOR MELLO: I'll go find her. [LB940 LB1046]

DEAN EDSON: Yeah, you might want to talk to her. But, you know, some of those things will have some influence, but I don't want to get into a tax debate. I'll be proven wrong later. [LB940 LB1046]

SENATOR MELLO: I guess, Dean, I have...I've been thinking about this throughout the hearing, and a testifier in support mentioned this, which is Nebraska ranks number one in regards to irrigated acres in the country. My question is, is that really a ranking right now, knowing the changes in climate science and drought, is that really a ranking that we want? Knowing that's why we have bills in front of us today, is that we need to spend income and sales tax, corporate income taxes, and miscellaneous tax dollars on being that number one ranked irrigated state in the country, is that really a ranking that we want right now? [LB940 LB1046]

DEAN EDSON: I think it is and I think it's a ranking we want to maintain. But we also want to manage it appropriately. I think we need to...and that's what we're looking at with these funding bills. This manages us into the future and look into the future,

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not...past our generation, look at the next generation. Let's make sure these economic opportunities are there. Nebraska is an ag state. We all know that. It drives our economy. By 2050, the global food demand is going to increase by 50 to 100 percent. Where's that food going to come from? And if we're not positioned right to have irrigated agriculture here, we're missing an opportunity. What we're trying to do with the NRDs is maintain that water table out there, try to increase it when we can. If you look at the other states and look at the USGS, Texas has a significant decline, Oklahoma, Kansas, significant declines. On the average, ours has increased since the development. Now we have some areas where we have decreases, but on the average, according to the USGS, we have increased our water supply. We want to continue to do that. [LB940 LB1046]

SENATOR MELLO: Okay. Any other questions from the committee? Seeing none, thank you, Dean. [LB940 LB1046]

DEAN EDSON: I'll try to get you the property tax data. I don't have that information up here. [LB940 LB1046]

SENATOR MELLO: I'd appreciate the occupation tax information. Thank you. [LB940 LB1046]

DEAN EDSON: Yeah, okay. I'll get you that other later. Thanks. [LB940 LB1046]

SENATOR MELLO: (Exhibits 26-34) Are there any other proponents for LB940 or LB1046? Seeing none, that will move us to any opposition. Real quick, actually, I should read these letters. First off, in respects to support, we did receive letters of support for LB940 and LB1046 from Brian Barel from the Nebraska Public Power District, James Hawks from the city of North Platte, Mike Delka from the Bostwick Irrigation District, Tom Moser from the Lewis and Clark Natural Resources District, and John Berge from the North Platte Natural Resources District. We did receive a letter of support for LB1046 from Brad Edgerton from the Frenchman-Cambridge Irrigation District, and Lynn Rex from the League of Municipalities. Next we'll move to opponents for LB940 and LB1046. [LB940 LB1046]

KEN WINSTON: (Exhibit 35) Good afternoon, Chairman Mello and members of the Appropriations Committee. My name is Ken Winston, K-e-n W-i-n-s-t-o-n, appearing on behalf of the Nebraska Chapter of the Sierra Club in opposition to LB940 and LB1046. And this is not really a position that I really am excited about being in. I'd rather be cheerleading along with the rest of the folks here this afternoon. But there are a number of things about the bill...I guess one of the things, and I'm not going to read my testimony because obviously you can read that, but one of the things that I want to emphasize is our appreciation for all the hard work by everybody who was involved with this study and particularly for Senator Carlson and Senator Schilz. We know how much

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they care about this issue and how important it is to them. And so...and everybody who was involved in the task force, from the top to the bottom, the fact that there was a lot of hard work that went into it; and so we really respect that. And the goals that people are talking about today are significant and we support most of those goals. It's just a question of how do we get there. And we have concerns about how to get there, and I guess I'm...as I said, I'm not going to read my testimony. But the concerns are, is this going to pass constitutional muster? I guess that's the first question. And because of the fact there aren't any criteria for how this is going to be spent and the money is just going to go over to the Natural Resources Commission and they're going to allocate it according to their wisdom. And there's a long line of cases that say the Legislature has to direct how money gets spent. And so maybe this passes muster, maybe not. But I think it's an important enough issue that we shouldn't be just saying, well, go forth and do good things with it. Then the next thing is, just the issue of the fact that water...the public policy of this state on a number of areas says that water belongs to the people of the state. And that means everybody. And just looking at the membership of the task force...and, once again, as I said, greatly appreciate and support that work. But just looking at it, it really, even though it was diverse from some people's point of view, it really isn't diverse in terms of the overall population of the state. It's overwhelmingly rural. It's overwhelmingly male. There's only one woman on the task force. That really isn't representative of the population of the state. And if everybody in the state is involved in this process, if everybody has an ownership and has a legal right to water, water is vital. I've heard...I've said on a number of occasions that water is life. I've heard Senator Carlson say that. And it's true, it's vital to everybody. It's also vital to agriculture. But the other thing is, it's also vital to everybody...to every soccer mom, to every person in Omaha and Lincoln it's vital to them, everybody in Kearney and Grand Island. But their voices aren't necessarily part of this process at the present time, and I think they need to be part of the process, because if it is something that's this important and...I mean, I remember my mom saying when I was kid, if there's something worth doing, it's worth doing right. And that's certainly the case here. And so I guess the things that we would...one of the other things that struck us as a matter of concern was just the fact that there were several recommendations for funding by the task force, but none of them were brought forward. And it's like, well, okay, these guys, these 27 people...they had to get at least 27 people to agree, and but yet that's being ignored now by the Legislature. And we're looking at the recommendations for funding allocation. We think they look good but why aren't they included in that legislation? And so we just think...we're concerned that the work of the task force is not going to be incorporated, and we think it ought to be incorporated in legislation. There ought to be more directive direction as to how the funding gets used and there ought to be more opportunities for input for people from all across this state. And I guess the other thing is, it's been mentioned that a big part of this was because they didn't want to continue to go after Environmental Trust money. Well, then let's make sure that that gets taken out as part of the process, that we're no longer taking money from the Environmental Trust. And then I guess the final thing is, you know, let's just make sure that we've got everybody

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involved in the decision-making process. Let's make sure that we have input from...I mean, I heard something from Mace Hack said, yeah, the urban person has just as much concern about their water quality and their water quantity as a rural person does. And I heard you make some comments about that, as well, Senator Mello. So those are things that we think need to be addressed, and we'd ask that those be addressed. I'd be glad to have conversations with anybody who is willing to work on this subject. But we just think there's some things that need to be addressed if we're going to go forward with these ideas. [LB940 LB1046]

SENATOR MELLO: Thank you for your testimony, Ken. Are there any questions from the committee? Senator Harms. [LB940 LB1046]

SENATOR HARMS: Thank you very much for coming. I'm just curious about where will the Sierra Club be 20 years from now when we don't have any water? [LB940 LB1046]

KEN WINSTON: Well, here's the deal, and frankly, here's where I'm coming from. I think...and I think I've been as strong a supporter for protecting our water support--the Sierra Club has and I personally--for protecting our water supplies and supporting them, as anyone. [LB940 LB1046]

SENATOR HARMS: I'm talking about the Sierra Club. You're representing the Sierra Club. I'm just curious where they'll be. The other thing I would like to walk down the pathway with you just for a few minutes, when you talk about there's no direction, that's one of the reasons why I asked Senator Carlson the question about priorities. We can fix that very easily, right here, by sitting down with Senator Carlson and the people there and put priorities with this aspect of it. I don't have any...we can fix that. That's not a problem. The other thing is that if the people own the water, the state owns the water. And the state, by constitution, as I understand it, you can't sell it as people. Landowners cannot sell the water. They can't ship it out of the state. The state itself owns the water. So my point is that with the right input, we can resolve the issues that you're talking about. But I just...I take offense, I guess to a certain degree--maybe it's just getting late in the night--that, quite frankly, I don't know where you're going to be 20 years from now unless we deal with this issue now. I think this is the single most important decision we're going to make this year, is what we do with this water. Because we're not going to have a future. All the things we're talking about now and all this input you're asking for, we aren't going to have any of that. And so I think we have to address the issue and get after it one way or another. Whether the Sierra Club is with us or not, I don't care. My point is we have to get after it. [LB940 LB1046]

KEN WINSTON: Well, Senator, I think that maybe you're not...that you're hearing a conflict that I don't think exists. I think... [LB940 LB1046]

SENATOR HARMS: That's good. I have hearing aids and sometimes they're up and

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sometimes they're down. So my wife calls it...she just says I kind of shut it down when I don't want to hear what she's saying, so. I understand that. But I just wanted you to understand where I'm coming from because I think it's an important issue. [LB940 LB1046]

KEN WINSTON: (Laugh) And I appreciate that. But as I said when I started, it's not the objection to the goals; it's how we get there. And we're saying we're concerned that there isn't...and I agree with you, I think that if the things that are done that you're describing are put into it, then our objections wash away, so. [LB940 LB1046]

SENATOR HARMS: Yeah, we can resolve those issues very quickly, that's my view, so. [LB940 LB1046]

KEN WINSTON: But just to go further, the Sierra Club is strongly in support of protecting and conserving and sustaining resources. And, by golly, I've got three children and I want to make sure that they're there for my kids and their kids. [LB940 LB1046]

SENATOR HARMS: Well, I appreciate that. Thank you very much. Thank you, Mr. Chair. [LB940 LB1046]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Ken. [LB940 LB1046]

KEN WINSTON: Thank you. [LB940 LB1046]

SENATOR MELLO: Are there any other opponents to LB940 or LB1046? Seeing none, is there anyone here in the neutral capacity for LB940 or LB1046? [LB940 LB1046]

RON YODER: Thank you, Chairman Mello, members of the committee. My name is Ron Yoder, R-o-n Y-o-d-e-r. I'm associate vice chancellor in the Institute of Agriculture and Natural Resources at the University of Nebraska-Lincoln. And I think you're aware that as an officer of the university I'm testifying in the neutral position. And I am painfully aware that I may be the only thing standing between many of you and dinner, so I will try to be brief. (Laughter) I think Senator Carlson and Senator Schilz have framed the situation very well, as have the testifiers that have gone before me. So I want to be on record as a representative of the university, that the university has a long history of being interested in water sustainability. We have very strong research and extension programs and have had for a long time. We have an expert faculty. Just in the past year and a half we've added, including 2 that we're adding now, 11 faculty members to our water faculty. And we have worked with and continue to work with many of the partners throughout the state that have a large interest in water management and water quality, water quantity, climate. So what I wanted to leave you with is that we want to continue

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to be that good partner that provides unbiased research and education programs to inform the conversation around managing water resources, the very vital water resources of this state. Thank you. [LB940 LB1046]

SENATOR MELLO: Thank you for your neutral testimony tonight, Ron. Are there any questions from the committee? Seeing none, thank you. That will lead us back to Senator Carlson and Senator Schilz for closing. [LB940 LB1046]

SENATOR CARLSON: Senator Mello and committee, thank you for your endurance. Thank you for your patience. And I want to thank each one of the testifiers and all the members of the committee for being a part of this hearing this afternoon. I'm going to just talk very briefly about Ken Winston's remarks. And he and I are friends. He talked about projects. Well, you know, that we've got a billion dollars' worth of specific projects here that we can look at. I think the representation on the Natural Resources Commission is really good representation. It brings in everybody in the state. And we're very, very careful in talking about--and we have earlier today--we're concerned about municipal uses of water and we're concerned about domestic users. And in the scope of things, when there's a problem they come first, and nobody is arguing that. But I would say that the Water Sustainability Task Force is made up of fine people and they've done outstanding work. This is a proactive approach. And so again I repeat Dr. Ronnie Green: We're in 2014 but we're wanting to think like 2050. We have a tremendous challenge but this is an immense opportunity, and I think this is the most important decision on issues in my eight years in the Legislature. This is a legacy act, a legacy effort, a legacy determination. And you're just as important in this decision as any of us that have been working on this all the way along. This is a Kingsley Dam, this is a Lake McConaughy kind of decision. So we ask for your help, and thank you for your careful consideration and thank you for your patience. [LB940 LB1046]

SENATOR MELLO: Thank you, Senator Carlson. Are there any questions from the committee? Tom, I've got one, and it was a question I asked Dean Edson. And we've talked about sustainability in our kind of small group at the end of last session, and it's something that I know that other members have talked about. I have a tough time getting my hands wrapped around how we can talk about sustainability and still want to be number one in irrigated acres in the country, knowing that there's been no reduction in irrigated acres. We can't continue that number moving forward and still say we're going to use less water in the future. I guess I'm just trying to get my hands wrapped around how we can say we want sustainability on one hand, yet we still want to be number one in irrigated acres in the country. I just don't...those two philosophies seem to be running in my head a little bit against each other, and I want to give you a chance to walk me through it a little bit. [LB940 LB1046]

SENATOR CARLSON: Okay. And I can understand that concern. But if you look across the state, we have whatever number of acres that we have that are being planted now

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and whatever number of acres that we have that are being irrigated now, and we are on a path to be able to raise more with less. That's our goal. If that happens and when that happens, we still have the opportunity, even to increase some irrigated acres, and still use less water than what we're using now. And let's go back to just a tremendous, tremendous challenge and the opportunity that we have to be in the best economic position of any state in the United States because we are the people who feed the world. And so this is a whole scientific approach and effort. And how do we do that so we're actually irrigating maybe more acres on less water? That's what sustainability is about. And we could get there if instead of 8.5 million irrigated acres, let's cut it down to 7 million. But look at the productivity that that takes away. Look at the economic opportunity that that takes away. Why don't we raise more on less? And I think that's what Dean is saying. That's what I am saying. That's where we're going to go, and we need this cooperation to get there. [LB940 LB1046]

SENATOR MELLO: All right. Thank you, Senator Carlson. Senator Harms. [LB940 LB1046]

SENATOR HARMS: Senator Carlson, you know, to help a little bit on the question about sustainability, you know, where I live we've already gone to non-till for some of crops; so we don't turn that over. We save a tremendous amount of water in regard to just non-tilling. Not only that, they have technologically brought...well, they've actually brought technology into their irrigation. They now have water sensors that you can drive up in your pickup, hit your computer, it comes on and it can tell you whether you've got to turn it on, how long it's going to run, the temperature. So I think, to be honest with you, that's not my biggest worry. I think if we're going to do that and do it successfully, all you have to do is turn to the university and say, here's what we have to have done; and they'll get the job done for us, because they've already made tremendous progress. My biggest issue...not my issue but my biggest concern is how we fund it, how we get there. So I think all these other things are just fine, but I don't know. That's (inaudible). Thank you, Senator Carlson. [LB940 LB1046]

SENATOR CARLSON: Well, it's a determination and a will, and so this is a huge decision and it's an important one. And I appreciate all your input today. [LB940 LB1046]

SENATOR MELLO: Senator Nelson. [LB940 LB1046]

SENATOR NELSON: Thank you, Senator Mello. Thank you, Senator Carlson. It seems to me that we don't want to look at it the way of being first in irrigated acres or first in the nation as far as irrigation. Isn't it more a matter and, at least in my mind, it's an issue of utilizing our full potential of the land that we have, but maybe increasing the amount of land for crops but still doing it with less water, whether we're number one in the country or not? Because for our economy I think we want to fully utilize what we have in a very

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economic way or as economically sound as we can with less use of water, because that's what's going to help our economy and keep our economy strong. [LB940 LB1046]

SENATOR CARLSON: I agree with that, and I'm going to speak for Dean, because I really think that what he was saying is that if we're number one that's okay, but let's make sure that we're managing our water properly. And he talked about the Upper Republican and what they're doing to get there, and they have to. And as a state we do that, if it results and we stay number one, because other states I think are going to have to cut back; they just don't have the water. And if we don't have to and we're number one in irrigation, that's okay. It's more important in production agriculture and livestock that we're raising what needs to be raised to feed the world. [LB940 LB1046]

SENATOR MELLO: Any other questions from the committee? Seeing none, thank you, Senator Carlson. [LB940 LB1046]

SENATOR CARLSON: Okay. Thank you. [LB940 LB1046]

SENATOR MELLO: Senator Schilz, would you like to close on LB940? [LB940 LB1046]

SENATOR SCHILZ: Very quickly. Thank you, Senator Mello and members of the Appropriations Committee, for taking the time to sit here through this. I know it's been a long day. But as Senator Carlson said and others have said, Senator Harms and others, this is an important issue. I think, Senator Mello, when you asked, you know, how do we do this and how do we get there, I think that it is important to understand that we do have issues in the state but we're addressing those issues. Overall, I think everybody needs to understand how big and how massive the water reserves are that we have in the Ogallala Aquifer. If you realize that since we've started irrigation and everything else that we have only depleted the whole aquifer by about 1 percent. Okay? So that's a huge deal. Now on the edges and there's areas where we're still having issues and those we need to address, but basically, we're dealing with the margins. We're not dealing with the huge issues that Texas, Oklahoma, and others are dealing with. The other thing that I want to leave you with, and this is what's important to think about going forward, when we talked about the Central system and Lake McConaughy and how all that works, right, that reservoir was built in 1940. We didn't mean to do this at all. By accident we've stored approximately--and others can tell me if I'm mistaken because I've heard this number kicked out there a number of times--but on accident we have stored seven Lake McConaughys underneath the ground in the aquifer underneath the Central system without even trying. So what that tells me is the excess capacity in the aquifer and the excess flows that come in and the rain that falls, if we manage it better we can store more water underground than we ever have before to fix all these things. And Senator Nelson is exactly right, don't worry about being number one. Worry about sustaining our resource and in the end we'll still be number one because we do that, at whatever level that is. So that's important to think about. But the opportunities for

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groundwater storage, the opportunities for using the aquifer as a reservoir give us opportunities that no other state has. And we have a real chance to build those reserves to protect everybody, whether it be agriculture, whether it be the municipalities, industry, or whatever. And that's the path we're on. That's the direction we want to go. And yes, we will take planning in the future, because as we talk about sustainability we have to remember that sustainability is a process because what we know today may not be the same tomorrow. And so we can think that we're doing just fine one day, and all of sudden things can change, like a drought or way too much, you know. So we need to be cognizant of that and we need to understand that. But I do believe that with technology that's coming around, not just in hybrids but in how we manage our water, how we apply the water, the kind of sensors that we will start to use to measure when crops need water and when they don't, I think is going to provide so many opportunities to make those savings while still being able to produce at a high level. So I will just leave you with that. I'd be more than happy at any other time, I know it's late, and I told myself I wasn't even going to come up here. But I appreciate the opportunity. So thank you very much, and with that I'd answer a question if I could. [LB940 LB1046]

SENATOR MELLO: Thank you, Senator Schilz. Senator Wightman. [LB940 LB1046]

SENATOR WIGHTMAN: Thank you, Senator Mello and Senator Schilz. When we talk about Nebraska being number one, I think we ought to consider a few things that are true at the state of Nebraska. First of all, we have probably the best underground water source. Would you say that? [LB940 LB1046]

SENATOR SCHILZ: Absolutely. [LB940 LB1046]

SENATOR WIGHTMAN: We also have a lot of land that can be irrigated and you move south of here...actually just probably the center part of the country has the need, because if you go too far...go very far to the west, you really can't irrigate enough to...possibly there's no water source there. So you're probably looking at a combined source of states that...not border Nebraska but follow Nebraska in a north-south position, wouldn't you say? [LB940 LB1046]

SENATOR SCHILZ: Absolutely. Yes, and as you get...and Nebraska is set in a purely unique situation, because if you go west, those are the arid states, big states with no water. And water administration out there is constant and it's different than it's run here. And...well, part of it's different than it's run here. You go east and they've got more water than they know what to do with, most of the time, and there's a different system there. In Nebraska, we've basically taken those two areas and we've kind of got the sweet spot here. We have the water to irrigate with through the Ogallala Aquifer and the High Plains Aquifer, and we also have the ability to store excess water. And because of the Rocky Mountains being where they are and the way that the snowpack comes in and everything like that, and the water comes downstream at certain times of the year, we

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have the ability to capture that. And that's what a lot of this money can go to do, and it can go to create more water than we thought we ever had, and we can use that to answer the questions that we all talked about here today. I hope that answered your question. [LB940 LB1046]

SENATOR WIGHTMAN: Somewhat. Basically all of it, but as we go south, obviously we don't have the underground water source. [LB940 LB1046]

SENATOR SCHILZ: No. And it gets thinner south and it gets thinner west. [LB940 LB1046]

SENATOR WIGHTMAN: Right. [LB940 LB1046]

SENATOR SCHILZ: And we're fortunate. We have 70 percent of all the fresh water in the Ogallala and the High Plains Aquifer systems right underneath Nebraska. It's huge. [LB940 LB1046]

SENATOR WIGHTMAN: And as we go north, we have climate and I don't think we have the water either, but... [LB940 LB1046]

SENATOR SCHILZ: Right. It becomes... [LB940 LB1046]

SENATOR WIGHTMAN: ...so there is a reason Nebraska is number one and there probably is a reason that it continues to be number one. [LB940 LB1046]

SENATOR SCHILZ: Yeah. And we all believe here in this room and talking to you, and I can tell that you guys believe it, too, we need to maintain that resource so that we can do things into the future. [LB940 LB1046]

SENATOR WIGHTMAN: Thank you. [LB940 LB1046]

SENATOR SCHILZ: Thank you. [LB940 LB1046]

SENATOR MELLO: Any other questions from the committee? Senator Nelson. [LB940 LB1046]

SENATOR NELSON: Thank you. I don't want to prolong things either, Senator Schilz. There was some testimony in opposition. I'm just reading: a long line of cases which hold that we as a Legislature can't delegate authority to an administrative agency without adequate standards; and that neither LB940 or LB1046 has any standards of expenditures. Do you have a response to that? Can that be taken care of and how would it be done? [LB940 LB1046]

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SENATOR SCHILZ: You tell us what we need to do... [LB940 LB1046]

SENATOR NELSON: Okay. [LB940 LB1046]

SENATOR SCHILZ: ...and we'll take care of it. Yes, I'm...whatever we need to do to have it set up right. You can tell that most of us haven't come in front of the Appropriations Committee before, because we didn't understand...we don't understand how to set that up. So I'd be more than happy to take some direction in that to make that possible. [LB940 LB1046]

SENATOR NELSON: Thank you. [LB940 LB1046]

SENATOR MELLO: Thank you, Senator Nelson. Are there any other questions from the committee? Seeing none, thank you, Senator Schilz. [LB940 LB1046]

SENATOR SCHILZ: Thanks so much. Have a great night. [LB940 LB1046]

SENATOR MELLO: (See also Exhibits 36, 37, and 38) That will end today's public hearings on LB940 and LB1046, and will close the Appropriations Committee hearings for the day. Thank you. [LB940 LB1046]