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Nebraska Retirement Systems Committee
January 20, 2016

[LB747 LB790 LB803]

The Committee on Nebraska Retirement Systems met at 12:00 p.m. on Wednesday, January 20, 2016, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB747, LB790, and LB803. Senators present: Mark Kolterman, Chairperson; Al Davis, Vice Chairperson; Rick Kolowski; Brett Lindstrom; and Heath Mello. Senators absent: Mike Groene.

SENATOR KOLTERMAN: Like to welcome you all to the Nebraska Retirement Systems Committee hearing. Bear with me as this is my first hearing. So if there's flaws, I'm open to suggestions. I'd like to introduce the committee members and our staff. On my right we have Katie Quintero. She's the new staff member. And we'll just go down the row and introduce each other. Go ahead.

CHRISTINA ESTRADA: Oh, you want me to introduce (inaudible)?

SENATOR KOLTERMAN: You're sitting in to educate.

CHRISTINA ESTRADA: I'm Christina Estrada. I'm just here to sit with Katie on her first committee clerk day, so. I'm not a member of the committee.

SENATOR DAVIS: First gig?

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

SENATOR KOLOWSKI: Senator Rick Kolowski, District 31, southwest Omaha.

SENATOR DAVIS: Al Davis, District 43, which is a 13-county area in north-central and western Nebraska.

KATE ALLEN: I'm Kate Allen, legal counsel for the committee.

SENATOR KOLTERMAN: I believe Senator Groene, Senator Mello will be joining us. I'm Senator Kolterman and, again, welcome to all of you. We have two pages...we have one page with us today. Would you introduce yourself?

SHANNYN BIRD: Hi. My name is Shannyn Bird. I go to UNL. I'm a student there. Thank you.

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SENATOR KOLTERMAN: Thank you, Shannyn. We are here today to talk about...to have hearings on LB747, LB790, and LB803. Those wishing to testify should come to the front of the room and be ready to testify as soon as someone finishes testifying in order to keep the hearing moving. We'll start with proponent testimony, then opponent testimony, and finally neutral testimony. Please complete the blue sign-in sheet and pass that in to our...Katie. It's important to have that printed so we can read it. For the record, please state your name as you come forward and be concise. Try not to repeat what someone else has already covered. If you want to submit something in writing, please feel free to do so. And finally, please turn off all cell phones. They are not allowed in the legislative hearings. So we're going to start out with LB747. Those wishing to testify in support of LB747, please come forward. Oh, yeah, I'm sorry, we have to introduce the bill and I'm going to do that. Will you take...

SENATOR DAVIS: Sure. Senator Kolterman.

SENATOR KOLTERMAN: Thank you, Senator Davis. My name is Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n. I'm here to introduce LB747. The Nebraska Capital Expansion Act was adopted in 1978 and was designed to provide additional capital to financial institutions to help meet agricultural and housing credit needs. Banks, capital stock financial institutions, and qualifying mutual financial institutions are eligible to obtain \$1 million from initial offerings of deposits and make application for an additional \$5 million provided they meet the rate and other requirements established by the act. LB747 increases the maximum amount available from \$6 million to \$16 million to these institutions. It would allow any bank, capital stock financial institution, and qualifying mutual financial institutions, accepting deposits in the amount of \$1 million from the initial offering of deposits, to make application for additional funds in the amount not to exceed each bank's capital stock financial institutions' and qualifying mutual financial institutions' pro-rata share of the remaining funds from the initial offering of \$15 million...or \$15 million for each such bank, capital stock financial institutions, and qualifying mutual financial institutions, whichever is less. Providing additional access to time deposits open accounts, as proposed in LB747, will assist banks seeking additional liquidity for lending purposes. For a little bit of history, in 2014 the amount was increased to a maximum of \$6 million and approximately one-third of the banks in Nebraska participate in this program. A little over \$45 million in deposits are being accepted currently. Two banks have taken advantage of the \$6 million maximum and would like to access additional funds. So I bring this so that we can talk about it and possibly increase the limits going to these banks in the state of Nebraska.
[LB747]

SENATOR DAVIS: Thank you, Senator Kolterman. Any questions from the committee?
Seeing... [LB747]

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SENATOR KOLTERMAN: Okay. Thank you. [LB747]

SENATOR DAVIS: ...seeing none, we'll take our first proponent. [LB747]

BOB HALLSTROM: (Exhibit 1) Mr. Vice Chairman, members of the committee, my name is Robert J. Hallstrom and I appear before you today as a registered lobbyist for the Nebraska Bankers Association in support of LB747. Chairman Kolterman has done a nice job of laying out exactly what this bill will do. We came before this committee and the Legislature two years ago to raise the maximum time deposit open accounts that banks could access from \$1 million to \$6 million. Under this program, and it's pursuant to the Nebraska Capital Expansion Act which carries out the purposes in terms of lending by financial institutions in their local communities for agricultural and housing credit needs, each bank is offered up to \$1 million at a rate that is determined on a tripart formula that includes rates for one-year treasuries, agencies, and one-year certificates of deposit. The current rate is about .93 percent, which is higher than they might pay for other sources of funds, but it has been a nice source of liquidity for banks who do need additional funds to make loans in their local communities. But after each of those banks are offered that \$1 million initially, the change that was made in 2014 allowed them to come back for a second request on a pro-rata basis of the remaining funds that had not been taken on the initial offering and get up to an additional \$5 million, for a total of \$6 (million). At that time, we had intended and desired to go a little bit further, but we were...it was suggested that we slow down. We found that, as Senator Kolterman has indicated, that a couple of banks have taken advantage of the full \$6 million allotment and they have both indicated that they would take more monies under the right circumstances. Obviously, loan demand and interest rates are going to affect the need for liquidity. But we think this is a positive addition to the law and will provide additional liquidity for those banks who look to this source of funding for that purpose. We've talked to the Investment Council and Mr. Walden-Newman. I think he's going to testify in a neutral capacity today. I don't assume that they have any objections or problems. The fiscal note does not indicate any adverse impact to the state from this. And we would ask the committee's consideration in moving the bill forward to General File. I'd be happy to answer any questions that you may have. [LB747]

SENATOR DAVIS: Questions from the committee? Bob, I've got one. You're jumping from \$6 (million) to \$16 (million). Why such a significant increase? [LB747]

BOB HALLSTROM: Well, Senator, we probably...our preference might be to say, why should there be any cap? The cap is going to be ultimately, and I think Mr. Walden-Newman's material show that there's 194 eligible institutions right now, so the cap right now is \$194 million. The policy of the state under the Nebraska Capital Expansion Act is that that \$194 million should be offered for lending purposes back into the local communities, and we would like to see all of that

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\$194 million captured and utilized by the banking industry. Probably the interest rate that is devised from that formula makes banks have second thoughts about whether or not they're going to take the full allotment or even beyond the \$1 million allotment. But we just believe, to the extent that there are additional funds that the policy of the state has said this pool of money will be available for these purposes, that banks that are willing to pay that rate and have use for it in their communities will have access. So if I had my preference, I'd come in and say, to the extent of the \$194 million, the banks can take as much as they need, not to exceed that amount. But we felt \$15 million was a good figure to go to. When you look at the information, we went from \$33 million in 2013 for 65 institutions up to almost \$40 million in 2014. And at the end of 2015, the figures that I've received, that are not indicated on the materials that Mr. Walden-Newman provided, is up to \$45 million. And that probably reflects an additional bank that took the additional \$6 million. The other thing to note about those figures is that, even though it reflects about \$70 (million) to \$75 million back in the 2006 to 2008 time frame, there were about double the banks in Nebraska that were participating in the program at that time. And that's just a reflection of the fact that we have significantly fewer banks over time that are in business in Nebraska. So the correlation is probably pretty much the same. [LB747]

SENATOR DAVIS: Thank you. Any other questions? Senator Kolowski. [LB747]

SENATOR KOLOWSKI: Thank you, Mr. Chairman. Bob, on the...how many banks did not participate, they took nothing? [LB747]

BOB HALLSTROM: There's about... [LB747]

SENATOR KOLOWSKI: About 106? [LB747]

BOB HALLSTROM: Yeah, there's about a third of the banks that participate, and that's been fairly consistent. And again, I think that's rate driven. When you look at the factors, the two factors that would come to mind, and there may be others, but one is going to be, clearly, loan demand in the community, the need for that liquidity. And the second is the interest rate that you have to pay in comparison to what other sources of funds that are available that the bank needs to fill those...the lending needs in their community. [LB747]

SENATOR KOLOWSKI: So one-third did participate, two-thirds did not participate. [LB747]

BOB HALLSTROM: Correct. [LB747]

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SENATOR KOLOWSKI: Geographically speaking, where are those banks that did participate as far as access from those in state to the banks? [LB747]

BOB HALLSTROM: I don't...yeah, I don't have that specific information, Senator. I don't know whether someone from the Investment Council could enlighten us as to where the disbursement of participants is...are. [LB747]

SENATOR KOLOWSKI: Thank you. [LB747]

SENATOR DAVIS: Any other questions? Thank you, Bob. [LB747]

BOB HALLSTROM: Thank you, Senator. [LB747]

SENATOR DAVIS: Next proponent. Seeing none, are there any opponents to the bill? Neutral? Welcome, Michael. [LB747]

MICHAEL WALDEN-NEWMAN: (Exhibit 2) Thank you. Mr. Vice Chair, members of the committee, Mr. Chairman, my name is Michael Walden-Newman, M-i-c-h-a-e-l, last name is a double last name, W-a-l-d-e-n hyphen N-e-w-m-a-n. Committee members, I'm the State Investment Officer with the Nebraska Investment Council. I'm here to provide information on the TDOA program. I prepared for committee members a one-page sheet that has some information you might find useful when this bill hits the floor. Let me state from the beginning that increasing the dollar amount will have no fiscal nor staff impact for the Investment Council. Changing the dollars does not affect the workload. I, as you know, came from the state of Wyoming where for ten years part of my function was to administer the same program for the state of Wyoming. The parameters are different but I am familiar with the program and understand the reason for it, so have hit the ground running, if you will, here. The TDOA program, to not repeat, I thought you might be interested in some information you have here. The number of banks, most recent question, I did ask the division of Banking for the number of qualifying institutions and, indeed, they came back with 194. Of that number, as of December last year, 64 banks were participating and there was \$45 million out with the program. It's a monthly program so money can come in and out. You see at the very bottom the number of participants over time. And I thought you might be interested in knowing the rate, the offsetting, if you will, the opportunity cost for a program like this. The TDOA funds are taken from the operating investment pool, from the state's checkbook, which you know we administer in-house at the Investment Council. The return we've been receiving is around 2 percent on that pool of money. And the average rate, which is a little past midpoint on this sheet, for TDOA participants, it fluctuates month to month so I took the average which is around 55 basis points. And as was just previously stated, for the month of December it was much higher. It was .9. With that, Mr.

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Vice Chair, I could answer any questions you have. But again, I thought you might find this information helpful. [LB747]

SENATOR DAVIS: Any questions from the committee? So, Michael, you talk about the opportunity cost. Can you...I guess the question I'll ask is, as you know, one of the duties of this committee is to look out for and make sure we've got resources. [LB747]

MICHAEL WALDEN-NEWMAN: Uh-huh. [LB747]

SENATOR DAVIS: By using this we're not reducing the rate of return that might be available to you in another manner. [LB747]

MICHAEL WALDEN-NEWMAN: Mr. Vice Chair, there is indeed that cost. In other words, if we were to retain...if this program did not exist then those funds that are being put out for this program would be invested, along with the others, and then, you know, you'd have that higher return. That's a fair statement. [LB747]

SENATOR DAVIS: So you're talking about the basis...the .9 return versus about a 2 percent return? [LB747]

MICHAEL WALDEN-NEWMAN: That's what the cost was to participants for the month of December, correct. Right. This .55 that I have here was the average over the year. And it's a little hard to see but you'll see under the formula I've laid out what the formula is for calculating the TDOA rate that banks must pay, and then the average for 2015, and then set out separately the number of banks and participants over time. [LB747]

SENATOR DAVIS: Thank you. [LB747]

MICHAEL WALDEN-NEWMAN: I might answer a question that was asked. I do have and I'd be happy to leave with the committee or committee counsel the list of participating banks currently. So you can see they're broken out. The list I happen to have is alphabetical but it then indicates the name of the bank and the town. [LB747]

SENATOR DAVIS: I think that would be very helpful if you have that. [LB747]

MICHAEL WALDEN-NEWMAN: Okay. You bet. [LB747]

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SENATOR DAVIS: Any other questions? [LB747]

MICHAEL WALDEN-NEWMAN: Nice to see you all. Thank you. [LB747]

SENATOR DAVIS: Nice to see you. Senator Kolterman. [LB747]

SENATOR KOLTERMAN: Thank you again, Senator Davis and members of the committee. When I was asked to carry this bill, I knew that there might be some opportunity costs that we would experience that might affect it a little bit. On the other hand, I also looked at the opportunity that we have to help our local economy by taking state...the state taking...putting money into the local banks, which they in turn can use to loan out to other people in their communities. It's based on the strength of the banks, obviously. It's important that we understand that in today's economy, where we've got markets that are dropping at high rates--I think they're down 400 points again today, maybe even more--it's important to know that we do have solid, sound banks in this state. And if we have an opportunity to help them and help the state, I think we ought to take advantage of that opportunity. As long as there's banks that are willing to take the risk and pay us the rate that's ongoing and fair, I think we ought to participate as much as we can. So in closing, I would encourage you to support this bill and let's move it out and take it the floor. Thank you. [LB747]

SENATOR DAVIS: Thank you, Senator Kolterman. I assume you're introducing LB790. [LB747]

SENATOR KOLTERMAN: Kate is going to do that one.

SENATOR DAVIS: Okay.

SENATOR KOLTERMAN: Okay. Kate, would you open on LB790 for us, please? [LB790]

KATE ALLEN: Sure. My name is Kate Allen, K-a-t-e A-l-l-e-n, and I'm legal counsel for the Retirement Committee. LB790 merely places the definition section in the first-class police officers retirement plan, the judges, the schools, and the Class V school employees retirement plan, puts the definitional section in alphabetical order. And this is a bill that I requested. I'm jokingly referring to it as my OCD bill because I do like order. But it also makes it more efficient. So any person that's looking in the definition section can follow alphabetically if they're looking for a term and more easily find it, and there's not as great a chance they might miss that term. So with that, I'll open it up to questions. [LB790]

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SENATOR KOLTERMAN: Okay. Are there any questions for Kate on this? [LB790]

KATE ALLEN: All right. Thank you. [LB790]

SENATOR KOLTERMAN: Okay. Thank you. Just stay there so you can close, right? Any testimony in support? Any testimony in opposition? Anyone want to testify in a neutral position? [LB790]

ORRON HILL: Good afternoon, Chairman Kolterman and Retirement Systems Committee members. My name is Orron Hill, O-r-r-o-n H-i-l-l. I'm a legal counsel for the Public Employees Retirement Board of the Nebraska Public Employees Retirement Systems. I'm here to testify neutrally on LB790. The PERB has not met since the introduction of this bill; thus, the PERB has not been able to discuss or vote on this bill. However, organizing statutes in a logical and clear manner facilitates statutory research and understanding of the law by all. Listing the statute's defined terms in alphabetical order is logical. This would aid everyone, including members, employers, taxpayers, NPERS, and the PERB in researching and understanding the law. I would be happy to answer any of your questions. [LB790]

SENATOR KOLTERMAN: Are there any questions? [LB790]

ORRON HILL: Thank you. [LB790]

SENATOR KOLTERMAN: Thank you, Orron, for testifying. No closing? Okay. So that closes that hearing. I would also like to acknowledge that Senator Mello has arrived. He heard the last bill, so appreciate him getting here. We're now going to move into LB803. Now you're back at it. [LB803]

SENATOR DAVIS: Okay. Senator Kolterman. [LB803]

SENATOR KOLTERMAN: My name is Mark Kolterman, M-a-r-k K-o-l-t-e-r-m-a-n. LB803 is a cleanup bill. Last session the Retirement Committee introduced LB468, which in part diverted a portion of the court and docket fees from the General Fund to the judges retirement fund. Section 33-106.02 was inadvertently left out of the bill. LB803 amends the district court docket fee in Section 33-106.02 to divert \$2 of docket fee from General Fund to the judges retirement fund beginning July 1, 2016. And beginning July 1, 2017, diverts \$4 of the docket fee from the General Fund to the judges retirement fund, as originally intended in LB468. There are no substantive changes included in the bill. Last year LB468 was estimated to generate an additional \$660,000 in fiscal year 2015-16 and fiscal year 2016-17, and an estimated \$1,320,000

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beginning in fiscal year 2017 and '18 and beyond. As a result of the omission of Section 33-106.02, it is estimated that the revenue will be reduced by approximately \$60,000 this fiscal year. In order to cleanup the bill, we need to pass this bill. [LB803]

SENATOR DAVIS: Any questions of Senator Kolterman? Thank you, Mark. Proponents? Are there any proponents? Any opponents? Seeing none, any neutral? Anyone testifying in the neutral capacity? [LB803]

ORRON HILL: Mr. Vice Chair and Retirement Systems Committee members, again, my name is Orron Hill, spelled O-r-r-o-n H-i-l-l. I'm the legal counsel for the Public Employees Retirement Board and the Nebraska Public Employees Retirement Systems. I'm here to testify neutrally on LB803. We're testifying neutrally because the PERB has not had the opportunity to officially hear the bill since its introduction. Our board has not had a meeting since its introduction. However, ensuring that the judges plan is well funded so that it can continue to provide retirement benefits for its members is important to the PERB and NPERS. This bill does provide funding for the judges plan to help satisfy that important interest. We would note for the record that the PERB and NPERS did testify as a proponent of the bills last year. And I would anticipate that had we had the opportunity to officially meet, we would have had that along those lines. But since we haven't, we have to take a neutral position. Subject to your questions, that concludes my testimony. [LB803]

SENATOR DAVIS: Anyone have any questions for Orron? Seeing none, you're off the hook, Orron. [LB803]

ORRON HILL: Thank you. [LB803]

SENATOR DAVIS: Senator Kolterman waives closing. That will end the hearings for today unless you have something else to say, Mr. Chairman. [LB803]

SENATOR KOLTERMAN: No. Yeah, we're going to Exec, so we'd ask that you please clear the room so we can talk for a few minutes. Thank you for coming today. [LB803]