

Transcript Prepared by Clerk of the Legislature Transcribers Office
Retirement Systems Committee March 2, 2021
Rough Draft

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KOLTERMAN: Welcome to the Retirement Systems Committee hearing. My name is Senator Mark Kolterman. I'm from Seward and represent the 24th Legislative District. I serve as Chair of this committee. For the safety of our committee members, staff, pages, and the public, we ask those attending our hearings to abide by the following. Due to social distancing requirements, seating in the hearing room is limited. We ask that you only enter the hearing room when it's necessary for you to-- to attend the bill hearing in progress, the bill today taken up in the order that it's presented. The committee will pause between each bill. Since we only have one bill, we're not going to pause. We request that everyone utilize the identified entrance and exit doors in the hearing room. We request that you wear a face covering while in the hearing room. Testifiers may remove their face covering during testimony to assist committee members and transcribers in clearly hearing and understanding the testimony. Pages will sanitize the front table and chair between testifiers. Public hearings for which attendance reaches seating capacity or near capacity, the entrance door will be monitored by the Sergeant-at-Arms, who will allow people to enter the hearing room based on seating availability. Persons waiting to enter the hearing room are asked to observe social distancing, wear a face covering while main-- waiting in the hallway or outside the building. To better facilitate today's proceedings. I ask that you abide by the following procedures. Please silence or turn off your cell phones. Move to the front row when you hear-- or you're ready to testify. And the order of testifier will be the introducer, proponents, opponents, neutral, and closing. Testifiers, please sign in. Hand your blue sign-in sheet to the committee clerk when you come up to testify. Please spell your name for the record before you testify and be concise. It's my request that you limit your testimony to five minutes. If-- if you will not be testifying at the microphone but want to go on record as having a-- position on a bill being heard today, there are white sheets at the entrance where you may leave your name and other pertinent information. These sign-in sheets will become exhibits in the permanent record at the end of today's hearing. We ask that you please limit or eliminate handouts. Written materials may be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and the staff when you come up to testify. We need eight copies. If you have written testimony but do not have the eight copies, please raise your hand now. OK, it's my under-- to my immediate left is my

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committee counsel, Kate Allen; to my right, far right, is-- is my committee clerk, Katie Quintero. The committee members with us today will introduce themselves, beginning at my far right. That'd be you, Senator McDonnell.

McDONNELL: Sorry, Senator Kolterman. Mike McDonnell, Legislative District 5, south Omaha.

LINDSTROM: Brett Lindstrom, District 18, northwest Omaha.

SLAMA: Julie Slama, District 1, Otoe, Nemaha, Johnson, Pawnee, and Richardson Counties.

McDONNELL: [INAUDIBLE] introduce yourself.

CLEMENTS: Thank you, Mr. Chairman. Rob Clements, District 2, Cass County and parts of Sarpy and Otoe.

KOLTERMAN: Our pages today are Noa and Claudia. Thank you. So with that, we will open the hearing on LB478. Welcome, Senator Blood. Go ahead. The floor is yours.

BLOOD: Well, I may just make this last all day then. So good afternoon to you, Chair Kolterman, and the entire Retirement Systems Committee. My name is Senator Carol Blood, and that is spelled B, as in "boy," l-o-o-d, as in "dog," Blood, C-a-r-o-l, Carol, and I represent District 3, which is western Bellevue and southeastern Papillion, Nebraska. So thank you for the opportunity to share LB478, otherwise known as the Cities of the First Class Firefighters Cash Balance Retirement Act. Now, before we discuss the need for this bill, you have to first know the background of this issue. In 1983, firefighters of the first class cities worked out a deal to fund their retirement on a defined contribution plan, which saw them switch over from what they previously had in a true defined benefit pension. At that time, they were assured that the plan, which went into effect in 1984, over 30 years ago, that when they retired at age 55, they would be able to retire with benefits that were roughly equivalent to what they got prior to 1984, which was 50 percent of salary retirement benefit. When this plan was pitched to the firefighters, it was considered a kind of experimental endeavor. We now know, three decades later, that the experiment has entirely failed. One major problem of this grand experiment is that the money for the defined contribution plan is

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being placed into a fund that can be and has been extremely volatile. The end result of that is that we are asking the people who constantly put their lives on the line and whose jobs take a tremendous toll on their bodies and mental health and who are exposed to unseen hazards, such as toxins that are causing deadly cancers at alarming rates, to live on a monthly income that is simply not acceptable. Most first-class-city firefighters in Nebraska are not covered by Social Security, so they do not receive Social Security credit for-- credits for hours worked as firefighters. That means we expect them live-- to live on a pretax income of roughly \$1,300 a month when they retire while also paying for their own health insurance. Because of this, many firefighters cannot retire when they reach retirement age. Instead, they're forced to continue dangerous work well past the age when they should be hanging it up. That's a danger to themselves and it's a danger to the other firefighters in their house and it can be a danger to the public. There's another factor to consider when talking about the public benefit. You'll note a recent trend of qualified firefighters who start to edge close to retirement age and they find their only choice to leave first-class-- their only choice is to leave first-class cities to get a job with city departments that offer retiree benefits a person can actually live on. Losing veteran firefighters means a drain of experience and know-how over and over again for these smaller cities. So how does-- how does LB478 fix this situation? It creates a cash balance retirement plan for first-class city firefighters that will be folded into the cash balance-- balance retirement plan which is overseen by the Nebraska Public Employees Retirement Board. This plan would be structured similar to how the current cash balance retirement plans are set up in that system, offering a minimum of a 5 percent interest rate with possible dividends once the plan is fully funded. I'll also point out that under LB478, employee and employer contribution rates would remain the same as the rates for the current members of the firefighter defined contribution plans. The employee rate would be 6.5 percent of compensation and the employer rate would be 13 percent. Now in a lot of ways this bill simply boils down to shifting the retirement funds from a more volatile path, where the administrators are looking to make a profit, to the state fund, which has been able to remain more stable and provide better payout when the time comes to retire. LB478 would have the First-Class Firefighters Cash Balance Retirement Act go into effect January 1, 2023. That is also the drop-dead date for first-class firefighters to enroll in the new system. A one-time

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election is offered to these firefighters with those who are hired prior to November 1, 2022, needing to make an election to either take the new system or stay in the current one by July 1. Those firefighters who were hired after November 1, 2022, have until December 31, 2022, to decide which retirement plan they wish to participate in. Those hired after January 1, 2023, will automatically be entered-- entered into the first-class firefighters cash balance retirement plan. For those wondering why the first-class city firefighters didn't simply jump-- join in with the Nebraska Public Employees Cash Balance retirement plan during those 1983 negotiations, it's really important to remember that this fund didn't exist until 2002, so it really wasn't an option. Since it became one, there has been a concerted effort to make the retirement plan more fair for these firefighters, and Senator Kolterman and I actually talked about that on the floor a little bit today. So I'm going to begin my close by saying this. Anyone who is concerned that this is going to be a massive change to the way the current cash balance plan is managed really needs to understand that we're not talking about a massive number of people who would be getting folded into the system. We're-- we're estimating it to be around 300 people. Those are 300 firefighters that are not being treated fairly when it comes to retirement. The vast majority of them had no choice in what kind of retirement system they were entering into when the plan was worked out three decades ago as they weren't around to weigh in. It's time to make this right and it's time to treat these people fairly. And I'd like to add before I close that most first-class fire-- city firefighters aren't allowed to collect Social Security benefits, but I did find at least two outliers that I'm aware of: Bellevue and South Sioux City. Both collect these benefits, and that has to do with those departments being created or switching over from volunteer to full-time paid after the federal law changed, and I know this because Bellevue's fire department changed while I was serving on the Bellevue City Council. So I'm aware that there will be municipa-- municipalities that speak in opposition today or have written letters of opposition, and I'd like to say that I do understand why they would oppose this and ask them at the very least to consider starting a conversation with their first responders, because this is clearly something that needs to be addressed. If not by LB478, they need to consider changes that both sides could eventually come to terms with, and I hope that, upon their testimony of opposition, that that's in the back of their minds today. So thank you. And with that, I would be

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happy to answer any questions; however, I will say that I am many things, but I am not and have never been a firefighter. But there are, however, several first-- several first-class firefighters who are here to testify today that are much better suited to answer the vast majority of your questions that you might have on the specifics of this plan, as well as to talk to you about just how unacceptable the current retirement plan is. And whatever questions they are un-- unable to answer, I'll attempt to address in my closing. I'll also add that we are aware that-- several issues that arose after we had this bill drafted, such as suppose-- supposed start-up costs that would be needed specifically for this bill. We also know that there's going to-- going to need to be some tweaks in order to match up that-- with recent changes in federal legislation. That was something that was really recent after we dropped the bill. There's also some harmonizing language that needs to be changed and adapted to better match up with what the plan's administrators need to be included. As always, I'm more than happy to work with any and all stakeholders as well as the committee in order to make this bill one that works for everyone. And with that, I thank you for your time today.

KOLTERMAN: Thank you, Senator Blood. Are there any questions? Seeing none, we'll move on to the first testifier. Again, I would let you know my phone is on. If you hear a ping, that's because Senator Stinner is sending me a question. He's watching, as I said, so it's the only way we could do this and still allow him to participate. Welcome.

DARREN GARREAN: Chairman Kolterman, members of a Retirement Committee, thank you. My name is Darren Garrean, D-a-r-r-e-n G-a-r-r-e-a-n, and I'm president of the Nebraska Professional Fire Fighters here today representing the paid first-class city firefighters. Around 1983, the cities came to the Legislature asking for a change of a statute to fix a problem. The problem, according to testimony of the day, was a result of some mismanagement and oversight and the problem of an underfunded or unfunded defined benefit pension plans for Nebraska first-class city firefighters. The fix, the alleged fix, was LB531, and that would end the defined benefit pensions of the guaranteed 50 percent replacement wage to a defined contribution plan. Then-Senator John DeCamp's testimony and opening statement on February 9, 1982, quoted a line from Julius Caesar, Shakespeare: The good that men do is often deared with their souls and the evil that they do lives after them. He goes on to say, again in 1982, well, I guess that phrase is

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no more appropriate than here today in the legislative setting, where something we do here today might come back to haunt us 20 or 30 years from now. Unfortunately, very few people are here that did the original thing, and that's really kind of a situation here. There are a lot of good intentions, but we're here sitting today bearing the brunt of some of those problems. Keep in mind that's back in 1982. Chairman Kolterman, members of the committee, I submit to you we're 37 years after the fact and the problem still isn't fixed. Unfortunately, our subject matter experts were unable to attend today's hearing because of travel restrictions due to the global pandemic. Each of our testifiers have submitted testimony and that we hope that you take time to read through and are more than willing to answer questions that may arise from some of their-- their written testimony. Today we expect opposition to say that firefighters wanted this and this plan was agreed to. I would counter and say that the leadership at that time opposed the legislation and only after compromise did they capitulate; after discussion, the cities saying that the new plan had all intentions to return of the same benefit of 50 percent or possibly better. David Chambers, who was representing the League of Municipalities at the time, had testified on-- as LB531, the firefighters' DC plan, and he testified, and I quote: It is designed, and I must repeat this very clearly, it is designed so that no firefighter employed at this time will receive any less benefit than a firefighter presently does in statutes. It is designed so that no firefighter receive less benefit than he or she would do at the present time. It is designed for them to get more benefits, unquote. Here we are, 37 year-- years later, knowing that didn't happen. We find a scenario where firefighters' retirement receive about 25 percent of their replacement income. Another argument you may hear is that if we do this for firefighters, we have to do it for all city employees. I'll be the first to say that firefighters are different. They work a different schedule. They work almost 30-- they work greater than 37 days more than somebody that works a 40-hour shift. So to-- to say that you can't do it for one or can't do it for the other, no, we're already treated differently, so I would-- I would vehemently say that's not true. For the merit of the opposition of this bill is what happened in 1984, I say go back further to the compromise and the promise of the 50 percent defined benefit pension that was implemented. Should we go back to 1963? Or if we go back as far as when it was actually implemented, it was 1896. We know we can't go back and change history. What we can do is learn from it. Over the

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last 37 years, we have learned that the 1984 change for the first-class city firefighters has not worked. Yes, the first-class city firefighters agreed to what was being pushed upon them. They answered that call, just like they do any 911 call, because they're public servants and they deserve-- they desire to serve. What was not known in 1984 about answering the call was the cost. Answering that call has a cost to these first-class city firefighters, as well as their families and the ability to retire with dignity and financial security. We ask for your support on this. And we know that there are some questions that arise from doing something like this. We're here to work with the committee in any way that we can.

KOLTERMAN: Thank you, Darren. Any questions? Seeing none, thank you. How many testifiers are we going to have today? All right, thank you. Katie, will you call? Welcome.

ANTHONY STRAWN: Hello. Good afternoon, Senators. My name is Anthony Strawn, A-n-t-h-o-n-y S-t-r-a-w-n. I'm the president of the Papillion Professional Firefighters Association, Local 3767. I speak here today as a proponent of LB478. I would like to share with you today the information I've been able to find out through the years as we've been trying to find a way to make it easier for first-class city firefighters to attain retirement. I spoke with Timothy Milton of the Social Security Office in Scottsbluff. He informed me some interesting information that, to be eligible for Social Security Disability, you must earn a substantial amount, which is about \$25,000 a year, and pay Social Security tax on that income. So you're-- also are eligible immediately-- you also are-- are not eligible immediately. You must pay in for five consecutive years. So since firefighters in the first-class cities don't pay Social Security tax, they're not able to receive that benefit. This means that if a firefighter is injured off duty, they have no disability benefit that will cover them for lost income. I believe this was an egregious mistake in the way the state of Nebraska changed laws in 1984. The change has continued to hinder firefighters in first-class cities. In regards to the three-legged stool idea of retirement, the three legs of the stool are employer-sponsored retirement plans, Social Security, and savings. The state has taken away a leg from the first-class firefighters, who are at the mercy of a volatile market that, as we have seen in the past, can completely change your retirement plans due to a recession like 2008. A job like firefighting has a limited timespan because of the physical, medical, and mental nature of the work. These are just a few

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of the inequalities that first-class city firefighters face from the decisions made by the Nebraska-- state of Nebraska in the 1984 bill that was not well thought out and is not providing the 50 percent benefit that was promised to first-class city firefighters. First-class cities have lost many talented firefighters that they have spent quite a bit of money on training of these firefighters. These firefighters have taken those talents to other states and cities on the backs of the training from the first-class cities that train these firefighters. The retention of firefighters in the first-class city is becoming a big issue. I've seen multiple firefighters leave, either for better retirement or a complete change in professions, because they have found that they will need a better retirement than offered by first-class city retirement plans. LB478 is a good start, but we still have a long way to go, especially in regards to disability and retiree health care. I believe that this 30-year experiment has proven to be a complete and total failure. Thank you for your time and consideration on LB478. I'd be happy to answer any questions.

KOLTERMAN: Thank you, Anthony. Are there any questions? I have one. Where-- where are you from?

ANTHONY STRAWN: Papillion, Nebraska.

KOLTERMAN: Papillion, thank you. Appreciate you coming today.

ANTHONY STRAWN: Thank you.

KOLTERMAN: Welcome.

DAVE WORDEKEMPER: Thank you. Good afternoon, Chairman Kolterman, members of the Retirement Committee. My name is Dave Wordekemper, D-a-v-e W-o-r-d-e-k-e-m-p-e-r. I'm president of the Fremont Firefighters Local 1015. As stated earlier, the defined benefit plan for firefighters started in 1896. It was unchanged until 1963. The change was to retire with not only 21 years of service, but you had to be age 55. The defined benefit plan was in place for 89 years until 1984, when the cities lobbied to change that defined contribution plan. The reasoning was possible unfunded liability. Testimony given in 1981 for LB5-- sorry, LB458 by Mike Nolan, city administrator for Norfolk, and also David Chambers for the League of Municipalities, testifying in 1982, LB936, states the current statute only required firefighters to make contributions to the plan and the cities to

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provide the retirement benefit. So here we are, nearly 40 years later, addressing the firefighter retirement issue again. Opponent testimony in 2015, 35 years after changing from a defined benefit plan, said the cities-- said the cities were still having to fund defined benefit plans. Maybe the solution would have been to properly fund the defined benefit plans from the start. Defined benefit plans are not a pot of gold at the end of a career. They are a recruitment and retention tool. In my 26 years as a firefighter in Fremont, 37 firefighters were hired and left; 24 went to cities with a defined benefit. Think of the time, training, resources, wages, also the money put into the defined contribution plans that are no longer in the plans and left with the employees. I was hired in 1995. At that time, there was between 120 and 150 applicants for a position. We tested this last year and we had 12 applicants for three positions and only 7 tested. I've been on the retirement committee since 1999, currently the chairman. Fremont and some other cities do not follow the current state statute. I made a FOIA request and it still has gone unanswered. What is the consequences of cities not following the current state statute? Moving the first-class city firefighters from a defined contribution plan to a state cash balance plan is a step in the right direction to possibly help with a better retirement benefit and to also help cities in recruitment and retention. Currently, I meet the requirement-- currently I meet the retirement qualifications, having 26 years of service, age 55 is--- I can't retire financially. Throughout my career I've had investment help from two investment advisers. In 2008, the market crash hurt everyone. I saw 65 percent loss in my account balance, 13 years of investment history gone. My balance was equivalent to what the contributions made. I understand that at my point in my career now, my investments should tend to be more conservative and less risky. My defined contribution plan has to make up the difference of not getting Social Security. If a person drawing Social Security gets \$3,000 a month, that is \$720,000 in 20 years with no risk, along with their other investments. I have to make up that difference with my own risk and unknowns. Thank you for your testimony. I'm available to answer any questions.

KOLTERMAN: Thank you, Dave. Any-- any questions? Seeing none, thank you for coming.

DAVE WORDEKEMPER: Thank you.

KOLTERMAN: Next proponent. Good morning,

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PHIL THOMAS: Good afternoon. Morning?

KOLTERMAN: Afternoon. [LAUGHTER] It went by pretty fast.

PHIL THOMAS: Mr. Chair and members of the committee, my name is Phil Thomas, P-h-i-l T-h-o-m-a-s, from Aurora, Nebraska. I'm a first-class city firefighter with Grand Island and president of the Grand Island Professional Fire Fighters. I'm here representing them today. I speak as a proponent of this bill and several key-- key points guide me. Number one, my brothers and sisters that are in the stations or out on calls right now are risking their lives and should not have to retire into poverty. This job is tough mentally and physically. Many firefighters will be healthy enough to find another job after 55 if-- if they so choose to. But should they have to after 20 years of serving the public? This bill, LB478, won't make us rich in retirement. Instead, it just provides for a modest income where we don't qualify for food stamps in retirement. Firefighters-- number two is firefighters should not have less benefits than the public they serve, such as being left out of Social Security. Social Security not only provides a guaranteed source of income at full retirement age, but also provides a di-- disability component that my members can't get. Insurance companies won't even provide disability insurance to firefighters and the ones that do, it's so expensive that we can't afford it. If one of my members gets disabled off duty and can't be a firefighter anymore, they don't qualify for Social Security Disability and they have nothing but their lump-sum payout, depending on how long they've been in the system. This ultimately would make them a burden to the taxpayer. Number three: Firefighters should not have to worry daily in their last few years of working that the market's going to crash. As you see right now, the-- the market's the highest it's ever been, and we're still down here at the State Capitol trying to fix this bill because we know at some point in 2008 that's going to happen again. If that's your time that-- you know, to be retiring, we don't-- we don't want those ups and downs. All of our eggs are in this one basket. There's no Social Security to-- to back it up. Many of these senior firefighters are selling and buying, trying to time the market. This bill would allow them to know exactly how much money they would have in the set amount of years based on the guarantee and-- and actual-- actuarials. The retirement bill in 1993 removed the guarantee of a pension, which also had a disability component. LB478 would provide a guarantee, no increased liability on the cities. I do wish this bill would have addressed off-duty disability, but this is a good

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start for the less than 300 of us in Nebraska, first-class city firefighters that we feel like we've been left behind. I would urge the committee to vote this bill out of committee so it can be debated on the floor. Any questions?

KOLTERMAN: Thank you, Phil. Any questions, seeing none, appreciate you coming.

PHIL THOMAS: OK. Thank you, Senator Kolterman.

KOLTERMAN: Welcome.

SCOTT KUEHL: Thank you, Senator Kolterman and the rest of the committee. My name is Scott Kuehl, S-c-o-t-t K-u-e-h-l. I'm a 26-year member of the city of Grand Island Fire Department, past president of the local in Grand Island. Current position is a battalion chief with the city of Grand Island Fire Department. I'm also the committee chair for the city's fire department retirement committee. And this is my third time testifying and try to-- shedding some light on the problem that I saw 10, maybe-- maybe 12 years ago coming. I had a firefighter from North Platte. He was in my position as western vice president of the state association and said, there's a storm coming, you guys need to start working on it. I started digging into it and trying to learn what I was a part of, which I didn't even know how bad it was. And as the years have gone by and different bills have been brought forward, the problem hasn't gone away and it's actually gotten worse even with-- what is there, 12 or so years of consistent increase in the market? We still have not been able to have any firefighter in the city of Grand Island retire at that 50 percent benefit. I take that back. One did. He was a pre-'84 firefighter that was guaranteed the 50 percent, but he put in 40 years as a firefighter. That's an anomaly not only in Grand Island, but that's an anomaly probably anywhere in any firefighting career. I don't know how many can do that going forward. You'll hear testimony today about the firefighters making this choice back in the '80s. One of my good friends was here in the '80s. It was a-- he was the western vice president of the state association and he was called down here because this was going on in-- in a-- in a defensive mode. He had tried to defend what was going on. I'll paraphrase and clean up the language, but he said our choices were one of two things: get kicked in the mouth or punched in the mouth, but you had to pick one. And the other option that we could have had back then was to do what the Grand Island police officers did

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or the first-class city police officers did. They stayed in the Social Security system and they have a 401(k) contribution with the city and the employee. I've got some pretty stunning numbers in a comparison realm if-- if-- if we have time at some point; if not, I can get those numbers to you. But it shows the difference between where I'm at, where a police officer is at and-- and a private citizen is at, and fairly equal situations, but it's a pretty stunning-- stunning difference. What happened in the '80s is with the cities were able just to wash their hands completely of any responsibility, any liability. Now that falls upon the retirement committee and, myself as the committee chair-- I've been on this committee for probably 20 years and chair probably 10 years-- we have no authority. So there was a time when we had a company running our investment options that the fees were just out of control, and I requested year after year, took me three, maybe four years to get the city to budget enough money to go out for an RFP process so we could have other people come and bid to-- to do the work that we needed them to do. And now it falls upon that committee and that company to do all training, all administrative stuff. Those fees come out of our money. We have new firefighters that lack in training to-- to know what to put their money in, and then we have retirees that are stunned when they get to the point where they get there and they said, I thought this plan was going to get me 50 percent at least, and we're not there. And now I'm having firefighters that have been out of the fire department for a few years applying for Social Security, thinking that because of the time they worked in the Social Security system before, maybe a little bit during and maybe even sometime afterwards, that because they were in the Nebraska system, they are getting harmed by the formula. The formula is, if you don't know, it's like 90 percent of your first \$900--and--some, \$60, whatever it is. Firefighters, if you don't complete at least 20 years, up to 30, you're only going to get-- that number is a 40 percent, so that's a roughly about a half of a very low number anyway. And in my case, my number projected is \$850. You're going to take away about \$400 of that because I did not comply with the substantial earning threshold, because the Social Security system thinks that we are in a pension, because we didn't pay Social Security. And in closing, I would just like to say I hope the committee can move this forward, because I think a group of people-- reasonable people can make some reasonable decisions to improve what we've got going here. There are ways to improve it. There are ways to manage our money better so that firefighters have a chance to retire with a little bit of dignity and

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a little bit of security. There-- you've heard testimony here. There is no fallback. There is no security there. Thank you.

KOLTERMAN: Thank you. I-- I appreciate you coming. I would like to have you get us that information that you-- you had put together comparing yourself--

SCOTT KUEHL: OK. I mean, I could give you the highlights now. It'd take like a minute maybe.

KOLTERMAN: That-- that's fine if-- sometime get it to our committee--

SCOTT KUEHL: Oh, OK. OK.

KOLTERMAN: --or get it to me and I'll--

SCOTT KUEHL: OK, that'd be great, yep.

KOLTERMAN: --send it out to the rest of the committee,

SCOTT KUEHL: I sure will.

KOLTERMAN: Any questions? Thank you for coming.

SCOTT KUEHL: Thank you.

KOLTERMAN: Appreciate it. Any-- any more proponents? Seeing none, we'll move to opponents.

LYNN REX: Senator Kolterman, members of the committee, my name is Lynn Rex, L-y-n-n R-e-x, representing the League of Nebraska Municipalities. I appreciate the opportunity to be here today. We're here respectfully opposing LB478. And I would like to just review several of the issues here that have been brought forward. First of all, I appreciate the hard work of the folks behind me. I don't have the courage to do what they do, so I have great appreciation for what they do. That being said, I'd like to just let you know that I've handed out for you kind of a history of the aid cuts to municipalities, and that's one of the reasons why this guaranteed of a 5 percent investment benefit, if you will, that there's going to be a guaranteed of that amount, the concern is, if the state runs into issues, will we be then in a position to pick those out? That is a real issue because of the implications. I mean, in 2011, the

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Legislature removed state aid to municipalities, and that simply was just a partial, though inadequate, reimbursement for tax exemptions that have been given to others by your predecessors. But that being said, let's talk about some of the issues today, because they're extremely important. I was not the lead on the negotiations in 1982-83 with first-class city police and fire. But I was there and my job was to take notes and make sure that I would keep our director up to speed on things that were happening. And I will tell you that this is-- I think there's been a mischaracterization of what occurred. In terms of the issue of mismanagement, let me just suggest to you that basically I'm not suggesting every first-class city was doing a fantastic job. I think some didn't understand all the implications of what a defined benefit system meant. In 1963, when the Legislature put these plans really in place in full force. the Legislature, not then and not ever, has put in one penny into the defined benefit plans until they changed in-- well, actually, they never have. The Legislature never put any money. You have for teachers; you have for judges; you have for other-- for State Patrol. But there's been absolutely no state contribution at all. So what was happening is year after year after year, there would be efforts by firefighters, and I understand why, change the vesting schedule, add more benefits, do this, do that. I remember a panic call I got from the then-city administrator of Fremont, Nebraska. His name was Jack Sutton. And in one night, everything changed from being overfunded to unfunded and a major unfunded liability for them simply because of another assessment based on how an actuary looked at the information, so the point being cities were struggling to manage to figure out how to do this. And what some of the officers said is that cities at-- back in the day, in 1982-83 were struggling. They were struggling. Hastings, Nebraska, was looking at whether or not they were going to have a bond issue because if that bond issue had not been approved to help pay off bonds for the unfunded liabilities, what else were they going to do? And so essentially what we looked at is we are in a position where basically defined benefit plans are a promise. A defined contribution plan is yours. And so it was explained to folks involved, what can we do here, because we can't afford to keep having you go to the Legislature, get increased benefits, increased schedule, increased vesting, and then we aren't able to pay for it, so what can we do? And in addition, several of the officers were trying to figure out what they could do because they were seeing some of their colleagues with defined contribution plans doing far greater. The only defined benefit plans in

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municipalities were ever-- for first-class cities, second or village, were in defined benefit plans for first-class city police and fire. So in terms of mismanagement, let me just suggest to you, we had a lot of cities struggling, working really hard to do that. Some were more successful than others, but there is a lot of flu-- fluidity with that. I will indicate to you that basically with LB-- passage of LB531 in 1983, the contribution rate for firefighters was 6.5 percent. Cities put in 13 percent for a total of 19.5 percent contribution. To my knowledge, there's no other city employee in a second-class, first-class or a village that has a 19.5 percent contribution. Perhaps you do, and I hope you do, but most-- I will just share-- share with you that we thought that was a very generous and something that was important to do. In addition, with LB531, just as with LB237 on the police side, they were guaranteed the greater benefit-- those that were currently in place were guaranteed the greater benefit of the defined benefit plan or whatever the defined contribution plan would raise. and at that time the projections really were that they would be able to get a significant benefit. And I want to quote from-- I think I have it here. This was one of the things that basically my predecessor worked hard to get, was to try to get them to have-- both on the police side and fire side, to have the State Investment Officer make the investments, pool it, make the State Investment Officers make the investments, and absolutely it was no. It was an absolute no. On both the police and the fire side they said, no, we are not going to let somebody else do that. At that time, you should also note, there were some senators talking about then, and even as late as Heath Mello, about using some pension funds to fund economic development programs. So maybe that was why, I don't know, but it was a hard-stop no on that. In addition, the concern was, well, how do you-- how do you give them control then? So in 16-1035, there's a retirement committee made up of six members. Two are selected by the city council, four members selected by the active firefighters. They make the decisions. They can hire somebody. The city is subject to approval of the retirement committee of-- again, controlled dominantly by the firefighters-- may contract with investment managers registered under the Investment Man-- Advisors Act to invest, reinvest, or otherwise. Again, some cities were doing better than others. Once again, we talked to them. This is something about ten years later. What about having something that would have the state control the investments through the State Investment Officer or have pooled funds? Maybe keep it local then, because they were adverse about having the state itself

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do it, so maybe have those funds pooled and then you have-- so you don't have the-- the different kinds of investments. That didn't come about. The answer then was no. And this is information that Scott Kuehl, I think, just testified to. This was his-- part of his testimony February 25-- 24, 2015. One of the things I want to touch on, and I think Senator Nordquist said it, we have a firefighter that has 28 years on the job. He started roughly at the same time as a couple 28-year firefighters. Through bad investments, bad choices-- I don't know what happened. He's rather embarrassed to even admit this-- he's got \$200,000 less than a person who started the same year and roughly progressed through the same system the same way, and he goes on. The firefighters and police officers insisted that they control their own investments. They made it clear that the Legislature and the League of Nebraska Municipalities was not going to be paternalistic. And I'm sorry, I see a red light, unless you ask me a question.

KOLTERMAN: Sure. I appreciate that. I have a couple questions. Appreciate you coming today. And these are from Senator Stinner.

LYNN REX: Sure.

KOLTERMAN: So is-- is it-- we understand it, the bill, they want-- they want the state to manage the plan. And his question is, can they opt back into Social Security? Do you know if that's a possibility or not?

LYNN REX: OK, I-- I can tell you that in reading some history from-- that committee counsel put together, my understanding is that they could, in fact-- even at the beginning of the negotiations in '82-83, there were strong suggestions and recommendations to them to go into Social Security. The firefighters themselves-- and Senator McDonnell may have better information here. The firefighters themselves decades ago went to Congress to get out of Social Security, and so basically that's why you have the differential. You've got a 19.5 percent total contribution, 6.5 from firefighters, 13 percent from cities on the fire side; on the police side, they're in Social Security and that additional funds on the-- excuse me, on the fire side, was meant to offset that. On the police side, they agreed to incremental, because we said we'd match it if you do it. They've gone up to 7 percent and municipalities match and that-- match that. So they're at 14 percent, not 19.5, but they are also in Social Security. But they were suggest-- it was suggested, Senator, that they had the options to go

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into it, and I know that there were several changes along the way, so I don't know if they want to exercise that option now or not. But if they are interested, I'm happy to go back to our first-class cities and ask them whether or not-- and of course, it's going to be up to the firefighters, but do they want to have the State Investment Council, as an example, pool their funds and manage it, or do they want to go together and do that. Now I will tell you, the investment bankers were not happy campers when we suggested that they have-- we worked with Pa-- Towers Perrin at the time to have-- to basically have all firefighters come together, police officers, too, separate funds, obviously, but to basically have a pooled investment and that they could select people on that. So in any event, that went nowhere, as well. It isn't as though we haven't made efforts in that regard. And--

KOLTERMAN: I appreciate that.

LYNN REX: Yes,

KOLTERMAN: And I-- I think what-- I mean, we're here. We're hearing testimony, both for and against, and I-- I sense that you're willing to work with them to try and correct some of the problems that exist.

LYNN REX: We will not go with the cash-- we will oppose the cash balance plan. It is a modified defined benefit plan.

KOLTERMAN: OK.

LYNN REX: Cities were struggling and struggling and would again. And again, I think it is just evidenced, Senator Kolterman, by looking at the state's commitment and your predecessors' commitment, or lack thereof over the years-- I'm not reflecting on you and the current Legislature.

KOLTERMAN: Right.

LYNN REX: But I'm just suggesting to you, in terms of going back to a system where we have the potential, or municipalities are going to have the potential to pick that up, that is a problem.

KOLTERMAN: OK, thank you. Yes, Senator Clements.

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CLEMENTS: Thank you, Mr. Chairman. Thank you, Ms. Rex. I-- back to the-- the police that you're saying are 7 percent plus 7 percent, and that they also-- do they also have Social Security--

LYNN REX: They do.

CLEMENTS: --7.65 percent employer and employee?

LYNN REX: They never opted out. No, that's em-- that's embedded in it. So, no, the answer is, yes, they do, which is the reason for the differential between the 19 per-- what the cities are doing is 13 percent and only 7 percent, so that's-- back in that time frame, that was what was comparable to make up for the Social Security. But again, and let-- and I also wanted to share this with you.

CLEMENTS: So the only contribution--

LYNN REX: Yes.

CLEMENTS: --is 7 percent and 7 percent out of-- with withholding?

LYNN REX: With-- with-- there's-- and they've got withholding on top of that, yes.

CLEMENTS: Plus Social Security--

LYNN REX: They have Social Security.

CLEMENTS: --withholding--

LYNN REX: Yes.

CLEMENTS: --employer and employee?

LYNN REX: They have to do that, yes.

CLEMENTS: Oh. All right. You know, that's another 15 percent. All right.

LYNN REX: But again, those options were all presented to the firefighters.

CLEMENTS: OK.

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LYNN REX: You can't make somebody do what they don't want to do in that regard.

CLEMENTS: And then the-- the police in all first-class cities are in the Social Security benefits?

LYNN REX: To my knowledge, they are, to-- I know of no first-class city that opted out of that. And I will go back and verify that. Unless I'm-- unless committee counsel tells me otherwise, I mean, I know of no first-class city that's opted out of Social Security. I don't know of anybody that has-- that-- any officer that's done that, Senator.

CLEMENTS: Thank you.

LYNN REX: All I can tell you is the co-- total contribution rate, which was intended to make up the differential on the Social Security because the firefighters ba-- back in the day didn't want to-- and in fact, during the negotiations in '82, '83, when it was suggested that they consider some things, I don't know even then if they could at that time. But when it became apparent that they could, I don't know that what-- and I'm pleased to hear from Senator-- Senator Blood that Bellevue did that already, so that's a good thing.

CLEMENTS: All right.

LYNN REX: And the other thing, too, that I want to underscore is that one of the major issues on the Social Security side is that in negotiating with the firefighters-- and again, I was there taking notes. I'm not acting like I did-- that I was the major lead on it. I was not. But I will tell you that one of the other things that they said to us repeatedly is that, look, they don't need it, they don't want it because they've got other jobs, they've got other things, and they're in a position where they can do that. And so that was one of the issues. Rightly or wrongly, that is what they said and that is what they did. So, again, I think that there would be a great benefit to have the-- these funds pooled. I think there'd be a great benefit to have a single invest-- somebody doing all the investments for them upon their advice. And-- and again, the-- in terms of FOIA requests or anything else, I mean, that's-- I don't-- I guess please give me the name of the-- if it's Fremont, I'll get ahold of the city administrator and talk to him. He's very collaborative and I'm finding

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it hard to believe that they're not going to provide him information. They control the committee. They control the investments.

CLEMENTS: OK, thank you.

KOLTERMAN: Any additional questions? Thank you very much.

LYNN REX: Thank you very much, really appreciate it.

KOLTERMAN: Additional opposition?

LYNN REX: We had a few people that wanted to be in today that couldn't because of COVID, so I apologize.

KOLTERMAN: That's fine. We-- and we've got some letters here. So

LYNN REX: We have a couple of people in quarantine, like Senator Stinner, so.

KOLTERMAN: OK. Welcome, Senator Wesely. You're-- you're another one of those that was probably around back then--

DON WESELY: I was.

KOLTERMAN: --with Senator DeCamp.

DON WESELY: Yes. [LAUGH] Oh, Senator, I could tell you a lot of stories about Senator DeCamp--

KOLTERMAN: I'm sure you could.

DON WESELY: Kate could, as well, and Lynn, and-- he was a character.

KOLTERMAN: Welcome.

DON WESELY: For the record, my name is Don Wesely. I'm here representing the Greater Nebraska Cities. My name is spelled D-o-n W-e-s-e-l-y. Greater Nebraska Cities include these first-class cities: Grand Island, Hastings, Kearney, Lexington, and Holdrege. We also have second-class cities, Aurora and Minden. But I-- I was on the Retirement Committee at that time. I was actually Vice Chair in 1983 and then became Chair after the session and was Chair in 1984. So I know the lunch-hour meetings and-- and the sacrifice all of you make to be a part of the Retirement Committee, and I-- and I commend you

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for your service. And-- and I do remember back to that time, but not as vividly as-- as Lynn does, but I do remember at the time being close to the firefighters, as I have been over the years, and asking, why would you give up a defined benefit plan for a defined contribution plan? And they just felt like they-- they didn't have much of a choice, that that seemed like the best thing to do, and-- and they were made some promises and-- and-- and they agreed to it. So I don't remember a big fight. I remember-- I wasn't part of the negotiations, but we did pass it. And it's-- I think all of our cities feel like we would like to do better. The problem is, how do you pay for it? And that's where Senator Kolterman maybe, after a number of internal studies-- and I'd like to also commend Kate Allen, who directed me to one of those interim studies, who's got that long history, as well, with this issue. You know, I think everybody should be and would be willing to talk through, well, how could we make things better? But there are problems with this proposal. Obviously, there's lots of pressure on cities to reduce property taxes, and they've tried the best they can. And to do better, they will have to look at additional funding in some fashion, and I-- I think that's problematic. Perhaps the state could help out. But as was mentioned earlier, if-- having been mayor, when you give any employee a benefit, the other employees look and say, hey, I want that, too, so that is an issue. How do we deal with this situation with the firefighters and not also address, perhaps, police or other city employees? All those things can be talked through and discussed, but the Greater Nebraska Cities are strongly opposed to this concept of the cash balance plan, but obviously are not opposed to talking more about the issue, and I'll leave it at that.

KOLTERMAN: Thank you, Senator. Any additional questions? Appreciate you coming today.

DON WESELY: Thank you, Senator.

KOLTERMAN: And we-- we'll probably talk some more.

DON WESELY: Thank you.

KOLTERMAN: Any other opponents? Anyone in the neutral capacity? Welcome, Mr. Hill.

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ORRON HILL: Good afternoon, Senator Kolterman and Retirement Systems Committee members. My name is Orron Hill. I'm the deputy director and legal counsel for the Nebraska Public Employees Retirement System and the legal counsel for the Public Employees Retirement Board. I'm here today at their direction to testify in a neutral capacity on LB478. NPERS and the PERB have three goals, as reflected in our annual report, that are directly on point to the discussions we're having today: First, efficiently and responsibly administer the plans that we maintain and maintain the trust of our members, the employers and the branches of government and the public as a whole as we do so. We also wish to provide information and education opportunities to members and employers and also monitor benefits and funding levels of the various retirement plans and advise policymakers of those considerations so they can make the best policy for the state. Today is a great opportunity where we can enhance those goals and move forward with those. It is our understanding that this bill is based on LB655 from 2015. Our fiscal note, which you will see, provides a lot of the commentary on the costs for the bill, as written, as we anticipate them to be to stand up such a plan. But there's a few things that the fiscal note doesn't say, that we're here to focus on, some of the legal and operational questions regarding this bill. They've been touched on already by Senator Blood, and I would like to thank Senator Blood's staff for being willing to communicate with us on this so that they could have an advance notice that we would come in and talk about those concerns. I'd like to start by talking about the fact that LB478 would create a standalone plan that we would have to stand up. We currently don't have a record keeper. We don't have the infra-- IT infrastructure or the staffing to be able to do such a task at this time. We also can't use funds from the other plans to pay for those costs, so it would require either a General Fund appropriation or ability to bill the employer for settlor expenses to stand up that plan. Please see our fiscal note for more information on those topics. Additionally, the bill does not reflect some of the recent changes at the federal level on retirement legislation, such things as the Settling Every Community Up for Retirement Enhancement or Coronavirus Aid Relief and Economic Security, the SECURE Act or CARES Act, if I use those acronyms, in turn. For example, the SECURE Act changed the required minimum distribution age for plans from 70.5 to 72 for those individuals who turned 70.5 on or after January 1 of 2020. This bill doesn't reflect that. It's a technical change that would need to happen with the bill, but one of those that we would certainly be

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willing to provide additional information and education on. Another interesting thing is the bill uses different definitions for some of the key terms for plan administration with which NPERS and the PERB are unfamiliar. Their definition of actuarial equivalency, compensation, and regular interest are different than those in the cash balance plan we currently administer, so making sure we have a good grasp on what the intent is and how the Legislature would expect us to implement those protocols would be very important to our analysis. Additionally, the bill does something that is odd for us. It places the authority to determine the termination date for retirement purposes and disability status at the city level, the employer level, rather than at the plan administrator level. This is something that is different than all the other plans that we administer. We make those determinations under the state statute and-- and it would be odd to divest that authority because it could lead to inconsistent application and potential compliance concerns, so we would point that out as well. Additionally, this bill proposes different reemployment language than the other cash balance plans that we would administer, and we would want to make sure that we knew what the intent was, if that was going to stay, or bring it into alignment with the other provisions of the plans we already administer. Lastly, the bill contains a different date, for reference to the Immigration and Naturalization Act, for determining eligibility to participate in the plan than the other cash balance plans that we administer. We think that there should be some consistency across the plans and would point that difference out. Operationally, there are several questions. The-- one of the big ones relates to the temporary disability provisions. They're unlike any in the plans that we currently administer and we would certainly need to work with the individuals who are introducing the bill to work on that language and make sure we were implementing it in a way that both complies with the federal tax code and meets the intent. The bill doesn't outline who pays for the plan's startup costs, which I've already discussed. The bill requires the Attorney General's Office to represent the plan but doesn't discuss the interplay between the current legal counsel and how that office would go, as well as the city attorneys that may be interested in having commentary. Perhaps most concerning is that the language of the bill creates a one-time election for active members of the cities to convert into the cash balance plan. As we don't know the current number, demographic makeup, and account balances of those individuals, it is-- we-- we were unable to estimate an approximate actuarial

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impact, and it would be very difficult without those specific data to discuss how that would create a liability for this new plan. We would recommend that an actuarial study be considered, if that is the case, so that there could be a better assessment of what that cost might actually be. Subject to your question, Senator Kolterman, I would like to-- and-- and another committee members, I would like to thank you for the opportunity to provide this education for you, and I would be glad to provide any additional responses to your questions that you may have. Thank you.

KOLTERMAN: Thank you. Orron. Any questions? I-- I have-- I have a couple of. Remind me-- my-- my memory isn't all that great-- were you around back in 2015 when we did the last study?

ORRON HILL: I had just started. Yes, Senator.

KOLTERMAN: I thought you had just come on board. And so have you had an opportunity to look at the last bit of information that we collected that summer?

ORRON HILL: I did. I might want to refer to it again before I gave you a solid answer, but, yes, I did have the chance to look at that.

KOLTERMAN: OK. And I-- and I was here, too, and I-- I do remember a lot of work went into that. And there are-- there are some challenges, as you indicated. You know, when you have as many first-class cities as we have, and they're all running their own plans and-- to get all that information and be able to evaluate it, that's one of the challenges that we faced. So I appreciate you being here and-- and pointing out why the fiscal note and why-- why it would be what it is. So with that, any-- any additional questions? Thank you for your help. I appreciate that always.

ORRON HILL: Thank you.

KOLTERMAN: Any other in the neutral position? Senator Blood, would you like to close? While she's coming up, I will tell you that we have positioned letters in support by Sarah Curry, the Platte Institute. We have opp-- opposition by Brian Newton, city of Fremont. And then we had writ-- submitted writ-- submitted written testimony by Brett Sorensen, York Professional Firefighters, Local 1648; Angela Amack, Nebraska Professional Fire Fighters Association; and Gary Bruns,

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Nebraska Professional Fire Fighters Association. So with that, please close.

BLOOD: Thank you, Senator Kolterman. First I want to thank the opposition for coming in and speaking with you. And I-- I give-- I have to give Lynn snaps because even when she was asked questions, she continued her testimony, so she got a lot on the record and that was really good. And I do appreciate the Retirement Board coming in and talking a little bit about some of the challenges that we have, but we were aware of that and we have been communicating with them, so let it never be said that I-- I'm not-- I'm not flexible. But I want to really drill this down to what this is about because we talk so much about the money part of it, because that's our job, but I want to talk about the people part of it. So what I'm going to ask you today, and it's really unfortunate so many people have left already, is, how old is too old to rush into a burning building? So unlike the rest of the population, really, firefighters are at a much higher risk when it comes to injury and illness and it really is a young person's profession and is very-- a very strenuous type of job and you don't get to warm up like you do when you're an athlete, and they suffer really high rates of disabling occupational injury. And so the older the firefighter, the more likely they are to become injured, and the recovery time is longer and the costs are greater to the cities. And it's expensive for taxpayers and it's expensive for the firefighters and it decreases the quality of life and it requires expensive treatment, and then there's the overtime pay to replace the injured worker, which stresses already low staffing levels. So I want you to remember that-- that this bill is less about retirement and really more about how physically and technically-- technically demanding this career is, and I want you to remember that what they do for a living, the amount of pay and retirement that we give them is never going to equal those efforts. It's not, and so we have to remember, when we look at this, not to look at necessarily the money involved, but look at the people that are involved. This is something that, because we're in a biennium and it's the first year, we actually have the opportunity to visit this and talk about this and tweak it and maybe make it something that's acceptable for everybody. But I want you to remember that these firefighters are citizens and taxpayers, and they understand more than anyone that there's a benefit when it comes to contributing to their communities and they have a sworn commitment to protect our communities, our assets, and our local economy from the

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effects of fire, natural and man-made disasters, and other costly emergencies. And they do that willingly and they do that well here in Nebraska, and I appreciate the fact that they do that. So I ask that you keep the people in mind and not just the monies and-- and think about what that would look like, because I know that the men and women that serve-- and we're talking about approximately 300 firefighters; we're not talking about a 1,000, right-- that they're willing to work with this committee and they're willing to work with the municipalities, but something has to happen and it needs to be fixed. And you have the data to show that. So let's use that as the foundation to move forward and figure this out. And with that, I know that some of you would like to eat lunch before 1:30 hearings, but I do appreciate your time today and I appreciate your great questions.

KOLTERMAN: Thank you, Senator Blood. Any questions? Seeing none, I appreciate you being here today. I appreciate all of you coming, and that will conclude our hearing for the day. Thank you.