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Appropriations Committee September 29, 2020
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STINNER: Welcome to the Appropriations hearing. My name is John Stinner. I'm from Gering and represent the 48th District, which is all of Scotts Bluff County. I also serve as Chairman of this committee. I'd like to start off by having members do self-introductions, starting with Senator Clements.

CLEMENTS: Hello, I'm Rob Clements from Elmwood. I represent District 2, which is Cass County, parts of Sarpy and Otoe.

McDONNELL: Mike McDonnell, LD 5, south Omaha.

HILKEMANN: Robert Hilkemann, District 4, which is west Omaha.

STINNER: John Stinner, District 48. Hi, Kate.

BOLZ: Good morning. Senator Kate Bolz, District 29.

WISHART: Senator Anna Wishart, District 27 in west Lincoln.

DORN: Senator Myron Dorn, District 30, Gage County, southeastern Lancaster.

STINNER: Assisting the committee today is Brittany Bohlmeier, our-- the committee clerk. At each entrance, you'll find green testifier sheets. If you are planning to testify today, please fill out a sign-in sheet and hand it to the committee clerk when you come up to testify. This is for invited testimony only. To better facilitate today's proceeding, I ask that you abide by the following procedures. Please silence or turn off cell phones. Move to the reserved chairs when you are ready to testify. I will introduce and then obviously, the invited testim-- testifiers can come in after that. I would ask that you spell your first and last name for the record before testifying. Be concise. My request is you limit your testimony to five minutes. I have also told my fellow members of the committee that they are limited to one question. Yesterday, we had five testifiers. We went for two and a half, almost three hours. So we're going to try to squeeze it into two hours. If we go over, that's fine. But I also asked them if they had additional questions to write it down. We'll get to it. We may have another session before-- and it would be more of a number session-- before the Legislature convenes this fall. So anyhow, we'll follow up with that. Written materials may be distributed to committee members as exhibits only while testimony is being offered. Hand them to the page for distribution to the committee and staff when they come up to testify. We'll need 12 copies. If you have written testimony and don't have 12 copies, please raise your

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hand now so the page can make copies for you. With that, we will begin today's hearing.

HILKEMANN: Senator Stinner, you may begin.

STINNER: I got Kate Bolz here, so she can--

HILKEMANN: She asked me that--

STINNER: Oh, OK.

HILKEMANN: She just passed me a note, so I'll take it.

STINNER: Very good. Good, good morning, Senator Hilkemann and fellow members of the Appropriations Committee. For the record, my name is John, J-o-h-n, Stinner, S-t-i-n-n-e-r, and I represent the 48th District, which is comprised solely of Scotts Bluff County. LR390 was designed to assess the fiscal and economic impact of the COVID-19 pandemic on Nebraska's early childhood workforce, early childhood care and educational system. We are going to enter a session that's going to be unique. This committee has got to have the data and the information in which to assess what the COVID impact has done to various agencies. And obviously, putting people back to work is probably one of our first priorities, both from the committee-- legislative and for all of Nebraska. Based on information that we've looked at over a long period of time, we're highly reliant in the state of Nebraska-- we hit either first or top five of parents working outside the home. So we're highly reliant on the childcare industry to be up and running and certainly robust enough to have this early childhood education at a, at a quality level. And that was something that I've pursued over my career. I think it's been an issue with me and certainly an advocate and a priority of mine, even before I started with the Legislature. And I think one of the first LRs I had was about early childhood and early childhood education throughout the state of Nebraska. We started in Lincoln, had testimony in Kearney as well as Scottsbluff, and it was really about to assess where we were at in the state, taking an inventory of what we had in the state. Plus, I was trying to gauge was there consensus that this was an important piece of what Nebraskans would want to see happen? Since that time, obviously, the Buffett Institute put together a survey, a detailed survey, and came up and actually provided information to the Legislature. There was pretty much unanimous across the state that this was not only a priority, but unanimously supported for quality childcare and quality education. So with that, obviously, then we went to a workforce, took, took a look at what our needs were. Workforce

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was one of the big needs that we had. And with this commission that I sat on with 40 other people or 39 other people, we took a look, detail wise, across the state, what our needs were. And really, my position in that was after we accumulated all this debt and had this blueprint of how do we move forward, I guess, what's the number? And actually, we took a look at what the revenue streams were for the federal government, local, parents, and came up with the gap and set a goal by 2030, to try to close that gap. So we were going to have another legislative review session across the state trying to get an assessment of just how that looked across the state, what those numbers ultimately were going to look at. But obviously, COVID got in the middle of this study. And one of the things we found out-- several things from the workforce side of things as we started to compile data, as I said, we're either one of the top five in the nation per capita with two people working outside the home. So that tells you that this is an important subject for all Nebraskans. It's also an important subject when we take a look at COVID because putting people back to work, highly reliant on childcare, it's got to be stable. It's got to be in place. The Buffett Institute then conducted two surveys during the pandemic. And based on that, I think there's people that will testify and give you that information. But obviously, we've got a problem and certainly there's a challenge there. But one of the things we also uncovered is-- in the workforce is 91 percent of our counties, pre-COVID, did not have adequate childcare. Eleven counties do not have a licensed childcare facility or provider. So we started out there, pre-COVID. We move into the COVID and the challenges presented there, certainly to that workforce, certainly to the providers and I think you'll hear from a provider today. So these are all things that we'll have to, have to measure. I also saw a recent study conducted by First Five and UNL Bureau of Research. They, they conducted a survey and they came up with the economic impact of inadequate childcare is costing the state of Nebraska \$745 million. That's a big number. It's a number-- I wouldn't expect it. It's over 3,000 jobs because we have inadequate childcare. So the impact both on tax receipts and the state of Nebraska is rather, rather substantial. I also, after-- I gave a presentation to, to the early childhood conference and during that time, I actually introduced a survey myself. And what I'm trying to determine is from a business aspect, what the impact is of childcare on businesses, what the impact is on individual families, what the impact is on providers, and this is the website. And it's not a prop because we're not allowed to have a prop, but this is informational since we are streaming this, to respond to that survey. And so far, we've compiled a-- over 100 people who have, have responded. Over 30-some counties are represented in that survey. I'm

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hoping that by the time we meet in December, I'll have some information compiled so that we can measure just where we're at and how our response is. We're also going to hear from the state of Nebraska about what they've done. They've-- you know, PPP loans. There has been grants. There's been other things, certainly CARES Act money, how that has been distributed and how successful we were in that. So those are subject areas we're going to talk about. Long term, this is about closing the workforce gap, short term is how do we measure that COVID impact and how do we get people back to work? And I think that's an important piece of this thing. So with that, I will turn it over to any questions.

HILKEMANN: Any questions for Senator Stinner? Senator Vargas.

STINNER: One question.

VARGAS: OK. So is-- I guess we'll dig into this. Is this part-- is the larger part of this to then dig into the workforce and identify what the challenges have been right now over the COVID-19 or is it to find a long-term, sustainable solution outside of COVID-19?

STINNER: I think this LR predominantly rests in what impact COVID has had on childcare, but with the idea that long term, we still have to resolve some of this gap issue that we're talking about, trying to get this workforce paid at a sufficient level so you don't have the turnover that we've seen in the industry. We've got dollars that can flow to the providers that will sustain them over, you know, different periods of different business cycles, if you will. I will tell you this, that communities that get the childcare right, the quality childcare right, will be successful. And we could do it on a community basis. We can do it on a regional basis. That's what-- we have to open up that discussion and see just exactly-- and I'm not saying that the state government fills all of this gap. I think there's some community concerns as well that we can look at from a business standpoint to build that quality into, into our childcare system, into our state. So that's a long term--

VARGAS: OK.

STINNER: --and it's probably a more involved answer than you probably need to have, but--

VARGAS: Well, I, I--

STINNER: --that's where we're at.

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VARGAS: I appreciate it nonetheless. You know I have my little one at home. I think I might be one of the only senators here that has a little one at home and I've been with her for three, four months at home, watching her with no childcare, so, so this is-- this is particularly personal. So I appreciate that.

STINNER: Thank you, thank you.

HILKEMANN: Our first testifier. He's back.

TED CARTER: I am, I'm back.

STINNER: Good morning.

TED CARTER: Good morning, Chairman Stinner and members of the Appropriations Committee. I am Ted Carter. For the record, T-e-d C-a-r-t-e-r, and I'm the eighth president at the University of Nebraska system. It's good to be with you again today. I'm here to offer the university's full support of LR390 and our long-term commitment to early childhood. I want to thank you and your attention in this important area. As we talked about yesterday, Nebraska's workforce needs are urgent and growing. The state will have more than 34,000 annual openings in high-skill, high-demand, high-wage, sometimes referred to as H3, jobs in the years ahead, which is particularly important as we consider the economic ramifications of COVID-19. Higher education has a vital role to play in closing the gap. I believe the future of higher education is all about pathways to college, to relevant internships and academic experiences, to timely graduation, to great jobs here in Nebraska. And every one of those pathways begin in the earliest years. And that's what ties the conversation we had yesterday to this very challenge that we have in front of us today. The university recognizes the critical role we play in the quality education of our very youngest children. We've been busy on that front. The Nebraska Early Childhood Workforce Commission, mentioned by Chairman Stinner, was staffed by the university and led by cochairs Sam Meisels at the Buffett Early Childhood Institute and Dr. Marjorie Kostelnik of UNL, who you'll hear from right behind me, in a few moments. This spring and summer, the university's Buffett Early Childhood Institute conducted two surveys of childcare providers to assess how COVID-19 has impacted the ability to care for children and support working parents and local businesses. UNL's Bureau of Business Research recently completed a study commissioned by First Five Nebraska quantifying the economic impacts of inadequate childcare access in Nebraska, as Chairman Stinner referenced here in his comments. The university is currently working in partnership with

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Chairman Stinner to survey parents and businesses across the state so this committee has the most complete and relevant data as you seek to strategically position our economic recovery efforts as a result of the pandemic. And finally, as a point of real pride, the University of Nebraska has the distinct honor and privilege of being the state's largest producer of teachers. We prepare and educate more teachers than any other entity in the state. In fact, I will take this opportunity to highlight the great work that's been happening at UNL over the last decade and their growing population of students going into undergraduate and master's degree program in teaching. And just this week, U.S. News and World Report put out their latest rankings. And it might surprise some of you to know that UNK, our university at Kearney, is a national leader in producing teachers, not just in terms of numbers, but in quality. Their online master's program is ranked number 31 across the entire nation, across-- against all schools. That's behind powerhouses like Ohio State, but ahead-- and Auburn, but ahead of programs in North Carolina State, Ball State and St. Joe's. And near to my heart, UNK is number six in the nation for producing quality teaching programs for veterans wanting to get into education. That's behind Georgia, Ohio State, and Florida State. That's a remarkable statistic and it's something that we have right here in the state of Nebraska. Early childhood education is one of the university's five strategic academic priorities and we see this as one of our leading policy interests. We look forward to working together to develop strategies to care for our youngest learners. When all children have a happy and healthy start, Nebraska's quality of life, the success of our communities and our workforce, we will all grow. Thank you again for your forward-thinking leadership, especially at this critical time for our state. We have a full lineup of experts who will follow me with much more detail on this topic. But at this time, I'd be happy to answer any questions any of you may have.

STINNER: Any questions? Seeing none, thank you.

TED CARTER: Thank you.

STINNER: Thank you for the last two days, actually.

MARJORIE KOSTELNIK: OK, so how do I distribute this to you? Oh, here-- thank you. Good morning.

STINNER: Good morning.

MARJORIE KOSTELNIK: Thank you, Senator Stinner and members of the Appropriation me-- Committee for seeking to assess the fiscal impact

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of COVID-19 on Nebraska's early childhood workforce. My name is Marjorie Kostelnik, M-a-r-j-o-r-i-e K-o-s-t-e-l-n-i-k. I'm cochair with Dr. Sam Meisels of the Nebraska Early Childhood Workforce Initiative. I'm a lifelong early childhood educator. I've worked with young children, families, and members of the early childhood workforce for over 40 years. I came to Nebraska as dean of the college of education and human sciences from 2003 to 2018. And I have to just insert here, I came to Nebraska because this looked like a state that not only cared about children, but had the innovative spirit to do something about early childhood education. I left Michigan because Nebraska looked like it had the gumption and the creativity to perhaps help us solve some of the really early childhood problems. Today, I'm pleased to share with you the key points of the commission's January 2020 report entitled "Elevating Nebraska's Early Childhood Workforce." This report and its recommendations are the most comprehensive ever presented about the early childhood workforce in Nebraska. And you should know that we are also talking to other states and what we're finding is this is one of the most comprehensive early childhood reports anywhere in the United States to date. There are four features that make the report especially pertinent to the topic that you're discussing today. First, there's a real goodness of fit here for Nebraska. Let me direct your attention to Appendix A-- you-- I realize you've gotten a whole set of materials there, but that's a list of the commission members from 2017 through 2019. And you'll see that the membership included a wide range of voices across many sectors representing the entire state. You should note that the members included individuals from the early childhood workforce itself, education representatives from K-12, and a variety of institutions of higher education, large and small business interests, health, governmental agencies, regulators, community boards, the faith community, as well as private and public funders. So the membership was quite diverse. Second, the input to the committee's work came through its members, but not just from them, also from thousands of people throughout the state of Nebraska. There were surveys, interviews, panels, conferences, community gatherings, and focus groups and the whole idea of this information was to elicit new thoughts and feedback through a wide array of channels. And the emphasis, a heavy emphasis, was on input from the workforce itself, as well as families and communities that early practitioners serve. Third, the commission took into account for most current and strongly supported research findings in the field worldwide. But even having said this, something that's really important to understand, that the recommendations are Nebraska derived. We didn't have a lot of outsiders come and tell us what we should be doing in Nebraska. We

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listened to Nebraskans and the solutions and the ideas that have been put forward are Nebraska focused. They are based on what we learned about Nebraska, Nebraska needs, and what Nebraska can do to elevate the early childhood workforce in our state. Finally, the address-- the report addresses financial issues head-on. Now, I have to tell you, I've been going to conferences for 30 to 40 years in early childhood and as soon as we hit the money, it's a sticky wicket. And people say we're going to kick that can down the road because it's too controversial, it's too difficult, we don't really know how we're going to do it. This commission said, no, we really have to talk about finance and we have to talk about it, not in a sky-in-the-pie-- pie-in-the-sky kind of way, but a practical way, a way that Nebraskans could not only respect and understand, but could get behind. Dr. Cathy Huddleston-Casas, who follows me in this hearing, is going to tell you more about that. In closing, what I'd like to share with you is there were four overall goals that this commission identified for the state of Nebraska. The first is that Nebraska's early childhood workforce will be highly qualified and will reflect the diversity of children and families they serve. When we talk to families, when we talk to communities about what families need, they mention quality, affordability, and choice as their top three criteria, quality, affordability, and choice, that they use in seeking early childcare and learning environments for their children. Second, our goal is for the early childhood education programs in Nebraska to be fully funded by 2030. I have to tell you, in spite of its important role, the early childhood workforce is actually in trouble, real trouble. Its members are stressed by low wages, long hours, and often poor working conditions. And this has been-- really been exacerbated by the COVID crisis. Young family wage earners can't afford to pay the full pot-- cost of high-quality care all on their own. That's a conundrum our state faces and that we hope this hearing will begin to address. Third, Nebraska will champion early care and education and the crucial role of the workforce in young children's learning and development. The early years are learning years. Increasing the number of skilled early childhood professionals, as well as the number and choices of high-quality early childcare and learning environments in the state is key to the healthy growth and development of Nebraska's youngest. I'm teaching two in-person classes at UNL this semester. Both of them are in early childhood. I have a very diverse group of students sitting in those classes. They are all committed to understanding that it takes more than being nice to be a good early childhood provider. They want to learn the science and they want to learn the practicalities of working with children and families effectively. The fourth thing that is a goal is implementation and infrastructure will be characterized

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by coordination, collaboration, and communication. We believe that it's by working together across public and private sectors, by coordinating communication developed through the years of the-- three years of the commission that we'll have an early childhood care and education system that is stable and of high quality. These are the services that children, families, and communities need to rebuild and enhance the Nebraska economy following this COVID crisis and to live the good life we Nebraskans so prize. So on behalf of the commission and myself, thank you. And do you have any questions you would like to ask of me?

STINNER: Any questions? Senator Hilkemann.

HILKEMANN: Yeah, I, I appreciate your-- the goals or the collaboration that you talked about. One of the first things I identified when coming into this position, we had the Buffett Institute, we had First Five, we had this organization, and, and then I went to the Nebraska Extension service. They're doing things with it and I'm thinking we've got all of these different agencies out here stressing for early childhood education and they're asking for funding and so forth. How are we collaborating and coordinating all of that? And I'm glad to hear that that's one of the goals that you've established there for this commission.

MARJORIE KOSTELNIK: If you look at the report, you'll see a, a really big list of organizations across Nebraska that have come together. One of the things that really impresses me, as not a native Nebraskan, is people in Nebraska actually do know how to work together. And we're, we're pretty competitive about a lot of things, but not at the risk of losing sight of the goal. So every one of those groups and more that you mentioned are actually on board and helped-- contributed to this report. So it's not everybody out for themselves. Everybody is willing to work together. And it means not always getting your own way. It means sometimes letting other people be the ones who are the top in a particular arena, but the point is, we are unified in a desire to have high-quality, well-funded early childhood programs in the state of Nebraska. And remember, variety, choice, and quality and choice is part of that.

HILKEMANN: Good to hear. Thank you.

MARJORIE KOSTELNIK: Thank you.

STINNER: Senator Wishart.

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WISHART: Well, thank you so much for being here. When you say early childhood education-- well, the report does-- early childhood education in Nebraska will be fully funded by 2030. What does that mean? What is the, the dollar amount that we would arrive at to be fully funded?

MARJORIE KOSTELNIK: Well, I'm so glad you asked that, because, in fact, Dr. Cathy Huddleston-Casas has all those figures and she's next. Thank you all very much.

STINNER: Thank you. Good morning.

CATHERINE HUDDLESTON-CASAS: Good morning. I'm Dr. Catherine Huddleston-Casas, C-a-t-h-e-r-i-n-e H-u-d-d-l-e-s-t-o-n-C-a-s-a-s. I'm the associate director of workforce planning and development at the Buffett Early Childhood Institute at the University of Nebraska. Senator Stinner and esteemed committee members, I appreciate the opportunity to speak with you about my role in the work with Nebraska's Early Childhood Workforce Commission. Specifically, I led the effort of the commission to understand the funding and financing needs of the early care and education system in our state. Among the aspirations laid out in the commission report, a fully funded early care and education system was set as a goal for Nebraska. I would like to take the next few minutes to explain what this means. Simply stated, full funding of early care and education is the combined private and public sector funding necessary to cover the total cost of ensuring that high-quality early care and education is available and accessible for every young child in Nebraska. It's important to note that the money supporting early care and education comes from both private and public sectors. Private sector money primarily comes from families, but included as well are contributions from businesses and from philanthropic entities. Public sector money comes from investments across all levels of government, local, state, and federal. By setting the goal of a fully funded system, the commission is not asking the state of Nebraska to step forward as the sole source of funding. Rather, what is recommended is that we calibrate the resources put into early care and education to fit the size and complexity of Nebraska's economy, the economy that the system is intended to serve. Our examination of the investment needed to fully fund Nebraska system was based on cost modeling developed by a committee of experts who examined this issue at the national level. Building a cost model from the ground up that accounts for what it takes to fully fund early care and education results in an estimate of .75 of 1 percent of gross domestic product. To give you a visual anchor for the figures I'm about to share, I invite you to open your

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commission report to page 59. It's been marked with-- for you with a green tab. It's this page with all the pie charts. Look at the pie chart at the top of the page that's labeled "Current." Using fiscal year 2017 data, the most recent data we had available at the time of our analysis, we estimate that Nebraska would need \$912 million to fully fund an early care and education system equipped to serve our economy. Out of context, this figure may seem high, but we should understand it in relation to the size of the economy; \$912 million is less than 1 percent of Nebraska's GDP in 2017. On the left, the larger pie represents that \$912 million estimate for full funding. In addition to developing an estimate for full funding, we examined the current level of investment in Nebraska's early care and education system. The commission estimates Nebraska's total investment in early care and education, including contributions from both private and public sectors, to be \$460 million. On the pie chart, this is the blue and gold sections combined. Of this total, the public sector contribution was \$211 million. Just over one-third of this investment, \$77 million, was state funded, and the remaining \$135 million was federally funded. The smaller pie chart to the right illustrates how the public sector contribution is split between the state and federal levels. Additionally, we've provided a handout labeled "Report Highlights" that depicts the flow of these public dollars through Nebraska's system. It's important to note that the state of Nebraska's \$77 million contribution makes up just 17 percent of the total current investment. This puts federal dollars making up 29 percent and the remaining 54 percent of the dollars come from the private sector, primarily families. While the state of Nebraska's contribution is significant, it is evident that our state government is not the primary funder of Nebraska's early care and education system. Returning to the larger pie on the left, the blue and gold sections of the pie represent the current public and private sector contributions, slightly more than half of the total needed. The gray section shows the \$452 million gap between where we are and where we need to be. This was the number that Senator Stinner asked for. With full funding estimated at \$912 million and with current funding at \$460 million, we have a gap of \$452 million. Now from this perspective, we are already halfway to the goal of full funding. Clearly, the funds needed to bridge this gap will not materialize immediately, nor can we anticipate that a single sector will provide them. The remainder of the graphics presented on page 59 illustrate a phased approach to full funding. The total needed is determined by the size of the economy. Through the phases, funding increases incrementally over time, thereby shrinking the gap until it's eliminated. Increases in private sector contributions reflect changes expected from adopting a sliding fee

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approach based on family ability to pay in combination with increases in family participation rates. Potential investments from the business and philanthropic communities are also included. For the public sector, increases reflect funding allocation recommendations. These recommendations come from the same committee of experts that develop the cost model at the national level. I would like to close my comments with a few final thoughts. The game changer in the work of the commission is the shift in how we think about funding early care and education. The cost modeling underpinning our research is based on an approach that sets funding targets to levels that meet the total cost of high-quality early care and education. This places the emphasis on developing funding levels to cover the cost of quality for all children, instead of letting quality and access be determined by the available funding. And key to success in ensuring access to quality for children is ensuring revenue stability for the small business owners across Nebraska that serve children and families every day. We must stop expecting our system to function on whatever funds can be cobbled together. We must shift to a model where the funding reflects the size of the economy the system is designed to serve. If we aspire to a larger, more robust economy in Nebraska, then we aspire to a robust early care and education system as well. Thank you for providing me with the opportunity to speak. I'm happy to take any questions you may have.

STINNER: Questions?

WISHART: Yeah.

STINNER: Senator Wishart.

WISHART: Well, first of all, thank you so much for being here. And this is going to take a little bit more than I think this hearing to digest, but this is, this is really good information [INAUDIBLE].

CATHERINE HUDDLESTON-CASAS: I'm happy to be a resource.

WISHART: First of all, I want to say that the quote here that says, from a voice from the field, "I'm usually the first to know when a woman in my town is pregnant because she has to get on the waiting list for childcare," when my husband and I were fostering, we looked everywhere for childcare. It was very hard to find and we got on countless waiting lists. So I-- that resonates with me. Can you just tell me when you say this gap of \$452 million, what does that look like in terms of kids? Like, is that the amount of kids that should be

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able to access childcare, but can't? Walk me through-- what does that gap mean?

CATHERINE HUDDLESTON-CASAS: Thank you for the question. That's an excellent question. What underpins the research that went into this is recognizing that you have to base your estimate of what it costs to provide quality care and education on what is involved in the process. And that is direct service delivery, which is what you're referring to. So the on-site costs of having a childcare business and serving children. But what's also included is supports for the workforce. That would be access to higher education and, and, like, our early childhood training centers and then also included is accountability for quality and, and improvements in the system. So those three things combined make up what the cost this actually is. And they're interdependent, so you can't say, you can't say, well, let's just put funding in this one place and hope that the others catch up because putting funding in one place just means that you're going to have more expenses pop up in another place. So it's a balancing act, right? So when you look at that gap, what that gap is showing us is if we want to provide quality early care and education for every child in Nebraska, we need to fund the system at the level of \$912 million, OK? And so right now, that doesn't mean-- kids are in childcare right now, right? Families are using childcare right now and we don't have \$912 million in the system. But what that means is there are children who are being cared in environments that are sorely underfunded and perhaps environments that are detrimental to their development. A big factor in this is that the early care and education workforce currently subsidizes the system by working for low wages. We have research that shows how many of them rely on public assistance. So whether we pay for it through wages for them or we pay for it through supporting their low wages, we're paying for it, right, as well as they work multiple jobs. And in-home provider is a provider who isn't working multiple jobs because they work 60 hours a week. So they're working at an hourly rate that's less than \$11 an hour. And then the majority of, of teachers who work in centers do have additional work or additional jobs. So the system is subsidized other ways, whether it's I can only be in early childhood if I have a spouse or partner who helps pay the mortgage at home, right? So and I do believe that COVID has shown us how much we all rely on early care and education, right? I mean, just the uproar of we got to get our kids back to school, you know. Yes, kids need to be in school, but at the end of the day, it's a whole lot easier to work when your kids are in school, right?

STINNER: Senator Vargas.

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VARGAS: Thank you for being here. I think earlier, I can't remember if it was Senator Stinner, Chairman Stinner that mentioned this or, or our first speaker, around looking at the current, the current state of the workforce in, in early ed that we're looking at, like, a \$75 million that is lost overall. Are there any projections-- let's say this is fully funded in this way and we're closing the \$452 million gap, what the return on investment might be, expected return on investment that won't be closing that \$75 million gap and instead seeing more of, you know, ROI?

CATHERINE HUDDLESTON-CASAS: Thank you for that question. There are two thoughts about that. One is that I'm excited that you will have the opportunity to hear from Elizabeth Everett from First Five and she will be presenting that research on the bottom-line study. And so that will give more context to that question. The other, the other answer that I have or the other thought that comes to me in response to your question is we have research that shows in the most dire situations or, or in, in circumstances where children are the most at risk, your return on investment in early childhood is 12 or 13 for every \$1 invested, OK? Well, that's a fun number to point to, but not all children are in the most dire circumstances. So what's the reality? Well, the reality is actually a really great return on investment. The, the same experts who this research is based on, I used a, a transforming the financing of early care and education report. In that, there is a review of the research that shows that on average, you're looking at a \$3 to \$4 return on investment in early care and education.

VARGAS: That's great. And then I-- the main, main reason I ask is we often are having hearings and I'm thinking of, you know, when I've, when I've been in front of Revenue and we're, we're talking about a tax incentive program. It's sometimes really hard to see the economic impact, but we can often-- you know, economists are looking at the long term, you know, you know, how many dollars are we getting for each dollar we're investing in? So that number is helpful. Thank you.

CATHERINE HUDDLESTON-CASAS: That's right. Thank you very much. I appreciate the opportunity.

STINNER: Thank you. Any additional questions? Seeing none, thank you. Good morning.

ELIZABETH EVERETT: Good morning. Chairman Stinner and members of the Appropriations Committee, thank you for inviting me to testify today. My name is Elizabeth Everett, spelled E-l-i-z-a-b-e-t-h E-v-e-r-e-t-t,

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and I am the deputy director of First Five Nebraska. First Five Nebraska is a public policy organization focused on promoting quality early care and learning opportunities for Nebraska's youngest children throughout the state. I am here today to offer our organization's insights on LR390. Much of First Five Nebraska's work is based on the recognition that the decisions we make about the care and learning of young children directly and indirectly impact the economic stability and growth of our state. Quality childcare programs play a key role in helping parents guide the early development of children so they can more likely grow up to become successful, productive members of our communities and state. But quality childcare is also a crucial element of the infrastructure that enables parents to participate in the workforce to better provide for their families. It improves workforce productivity for employers, generates revenue for the state, and contributes to economic activity on a broad scale. Despite the obvious importance of childcare, there are very few supports that make owning a childcare program or working in this industry a viable career for existing or aspiring educators and entrepreneurs. High employee turnover, low profit margins, and burdensome operating costs represent a serious challenge to the sustainability of many childcare programs. Demand for a childcare typically exceeds the number of providers and slots available in our communities. As a result, Nebraska has suffered from a chronic shortfall in access to childcare in all regions of the state. Last year, First Five Nebraska commissioned the University of Nebraska-Lincoln Bureau of Business Research to study the economic fallout of inadequate childcare options on family income, employer profitability, and state revenues. The findings of that study, published in August under the title "The Bottom Line," offer an alarming snapshot of what the gaps in our childcare infrastructure cost Nebraskans directly and indirectly, pre-COVID-19. Nebraska's working parents depend on stable care arrangements that align with their professional schedules and allow them to be present and productive at work. Similarly, employers depend on their workers to be punctual, reliable, and fully engaged with their jobs. Short-term disruptions in childcare, such as the provider being unable to open due to illness, are a serious issue when there is no redundancy available for the families who depend upon them. Long-term disruptions, such as permanent closure of a childcare program, can result in even more severe financial setbacks for families and employers. The bottom-line study accounted for direct losses from short-term and long-term disruptions in the childcare access. Those losses were linked to abbreviated paid hours due to tardiness or early departure from work, full-day employee absences, lost opportunities for professional advancement, lost workforce-- workplace productivity,

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and costs of employee turnover, among other factors. The Bureau of Business Research found that gaps in childcare availability costs working parents \$489 million and employers \$234 million annually. Combined with related effects on tax revenues, the total estimated direct loss due to inadequate childcare access in Nebraska exceeded \$745 million annually. This does not account for the ripple effect, such as losses created by reducing economic activity throughout our communities and state, nor does it account for the additional strains that COVID-19 has placed on Nebraska's childcare professionals and the industry as a whole. We can say with confidence that the economic impacts of inadequate childcare across are, in all probability, even more severe than those I've outlined for you today. Simply put, the childcare industry experiences significant challenges, even in optimal economic conditions. In the face of an unprecedented challenge such as COVID-19, it is more urgent than ever that we find ways to make our state's childcare system more resilient and sustainable if we are to mobilize the workforce we need for economic recovery. This is why LR390 merits the focused attention of Nebraska's public and private leadership. Thank you again for the opportunity to speak with you today. On behalf of First Five Nebraska, I wish to express our appreciation for Chairman Stinner for his work and leadership on this crucial issue. We look forward to working with you and the Nebraska Legislature to ensure that our childcare system will support the economic opportunities, stability, and quality of life Nebraska is known for. Thank you. I'd be happy to take any questions now.

STINNER: You bet. Questions? Senator Dorn.

DORN: Thank you for being here. In the little bit-- I don't know, I don't know how you viewed it or whatever, but what have you seen-- I-- you made some comments in here about the COVID impact on childcare. Talk a little bit more about that, maybe. What, what are you seeing out there as we go through this issue?

ELIZABETH EVERETT: Yes. So we do have some testifiers after me who will talk more directly about the data behind it, but we are seeing some significant closure rates. We are seeing a lot of families having to not have their normal childcare provider available to them. We are seeing a lot of families also understand the impacts of childcare and how that impacts their workforce and their workplace. And so not being able to go to work on a daily, daily basis, we're seeing a lot of parents having to decide whether it's, you know, going to work or staying at home with their families. We are seeing also a lot of families and providers across this system also say that we don't have any financial, you know, financial supports that we need to continue

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in this industry. You know, one of the most interesting things that I think Dr. Eric Thompson said about this study and about the childcare industry as a whole is that there is no backup industry to help fill this vacuum. If childcare doesn't exist, there is nothing else to replace it. That's not true for other industries, right? If, you know, something else leaves and more of-- more likely, something else will take its place. For childcare, there's a vacuum, then parents-- there, there's nothing for them right now.

STINNER: Any additional questions? Seeing none, thank you very much.

ELIZABETH EVERETT: Thank you.

STEPHANIE BEASLEY: Good morning,--

STINNER: Good morning.

STEPHANIE BEASLEY: --Chairperson Stinner and members of the Appropriations Committee. My name is Stephanie Beasley, S-t-e-p-h-a-n-i-e B-e-a-s-l-e-y, and I serve as the director for the division of children and family services with the Nebraska Department of Health and Human Services. I'm here to provide information regarding the department's actions to mitigate the effects of COVID-19 on Nebraska's early childhood workforce and early childhood care during the declared emergency. COVID-19 has had a significant impact on childcare providers. Since the Governor declared a state of emergency in March of 2020, 675 licensed childcare providers have reported a closure for their families for at least a day. In addition, 63 childcare facilities have permanently closed and 224 childcare facilities remain temp-- temporarily closed. DHHS has noticed a considerable decrease in the number of children served through the childcare subsidy program. In June of 2019, there were approximately 18,025 children receiving childcare subsidies. In June of 2020, this number was down to 13,688 children. The exact reason for the decline is unknown. However, several factors linked to COVID-19 may contribute to, including parents choosing-- keep children home-- keeping children home or making alternate childcare arrangements to reduce the risk of exposure. Since the beginning of the COVID emergency, the Department of Health and Human Services has taken a number of actions to serve families and help childcare providers during the declared emergency. Under executive order 20-18, parents were given additional options for childcare providers by suspending limitations on the authorization criteria for in-home childcare payments. Executive order 20-18 also allowed childcare providers that were open and staff to continue to receive child-- or to receive subsidy payments for eligible children

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who were absent from their care, whether the parent or legal guardian chose to keep the child home or was unable to use childcare due to the COVID-19 emergency. The provision continues to sustain provider incomes despite drops in childcare utilization due to the pandemic. For the '20-'21 school year, childcare providers can receive a subsidy for assisting eligible children with remote learning. Additionally, benefit recipients whose subsidy eligibility was due for redetermination in April and May have had their eligibility automatically extended for six months. Finally, DHHS paid full-time childcare subsidies for eligible school-age children during the months of March, April, and May for children whom typically would have been in school and only eligible for reduced payments. In April of 2020, Nebraska received an additional 20-- \$20 million for its childcare development fund from the federal CARES Act relief bill. These additional dollars are being used to stabilize and maintain the early childcare workforce and childcare system. Specifically, \$9.9 million of these funds have been utilized in provider stabilization grants for Nebraska childcare providers, \$4 million helping programs for school-age children, and \$1 million incentivizing childcare providers to reopen their facilities. Thank you for the opportunity to testify before you today on this important topic. I'm happy to answer any questions you may have.

STINNER: Questions? I'm trying to get my head around some of your numbers. So how many dollars total have we received from the federal government concerning the childcare industry? Now some of these dollars go directly to the parents, right--

STEPHANIE BEASLEY: I can--

STINNER: --and some go to providers?

STEPHANIE BEASLEY: --get a specific breakdown for you, but funding goes to the providers.

STINNER: OK. How many dollars are left out of the \$20 million that you received or is that all gone out?

STEPHANIE BEASLEY: It actually is starting to go out. I can break down for you and get that information to you, Senator, for the specific dollars that have already been expended. But we have multiple breakdowns within that \$20 million and allotments-- so we have-- the first is a childcare relief fund, that really is a one-time \$1,000 grant, all the way through stabilization funds, incentive to reopen. I can get you a list of exactly how those dollars have been allocated

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and what has already gone out the door versus what is still being applied for.

STINNER: OK. How many licensed providers do we have in the entire state? Is it something like 3,000, isn't it?

STEPHANIE BEASLEY: That's an approximate, yes, sir. So there are 715 license-exempt subsidy providers and 1,229 licensed subsidy providers.

STINNER: OK. Any additional questions? Senator Dorn.

DORN: Sorry, thank you, Chairman Stinner. Thank you for being here. Just a quick note on that, how do, how do people acquire the funding or, or are you reaching out or do they need to reach back to you or how does that process work?

STEPHANIE BEASLEY: So eligible-- so if you are-- I can break this down for you, so I thank you for the question. If they have an initial ability and an income at or below 130 percent of the federal poverty level and the need for services, which are typically related to employment activities or educational involvement, then they can apply for the subsidy. If you are an eligible provider, then you would receive that subsidy payment from us.

DORN: They'll automatically receive that payment then without applying? I mean--

STEPHANIE BEASLEY: Correct.

DORN: --what is the connection there so that, so that these providers are, are keenly aware of the fact that there is some additional funding, I guess? That's what I'm asking.

STEPHANIE BEASLEY: Thank you. So for the providers to be eligible for the stabilization grants, etcetera, we were notified-- notifying those providers.

DORN: OK.

STEPHANIE BEASLEY: We were reaching out. Our program team was sending letter and communications. We were also really trying to reach it through our network of partners as well.

DORN: Thank you.

STINNER: Senator Vargas.

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VARGAS: Thank you very much for being here. So in April, we received the \$20 million and, and I noticed that you-- we have about 63 childcare facilities that have permanently closed. You know, when did the funding start to go out to providers?

STEPHANIE BEASLEY: So the funding has-- thank you, Senator-- the funding has currently started to go out. I can let you know when the first check was sent for each category. We have aid in a variety of different categories and I can let you know for each one when that went out.

VARGAS: OK. And I'm asking because, you know, it's a shame that they closed and obviously, the intent of that money is to then provide stabilization so that they can get through a difficult time. And there already has been some systems that obviously DHHS has done to then allow them to still receive subsidies even when they're not having certain student-- you know, certain children there. And then for the \$20 million, this is about \$15 million that's allocated. Where is the other \$5 million going?

STEPHANIE BEASLEY: So it's-- actually the \$20 million is allocated. We have-- I can get that breakdown for you, but we have a variety of one-time grants for providers.

VARGAS: Oh, OK.

STEPHANIE BEASLEY: And we invested in the Child Care Referral Network as well, that was another \$500,000, and then we have after school and summer learning for school-age children investment. So there's a variety of different pools of dollars that we tried to "deseperate" and really get, you know, diversity and, and need addressed. And we-- to address your first comment, Senator, when we first saw the pandemic hit, we had a high of somewhere between 16 to 18 percent of our providers had actually closed for at least a day and I think we're currently down to just over 7.5 percent--

VARGAS: OK.

STEPHANIE BEASLEY: --of our subsidy providers that remain either temporarily closed or closed.

VARGAS: OK and I was asking because I, I just couldn't account for the \$5 million for the-- everything else seemed to be accounted for, \$452 million seem to be accounted for. And just last question, so is, is the goal that all \$20 million will then go out by the end of this year?

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STEPHANIE BEASLEY: Thank you. We have the opportunity to spend this over time--

VARGAS: Oh, OK.

STEPHANIE BEASLEY: --and it doesn't have to be out the door in a certain period of time by the end of this year. We do have the opportunity to extend it over a period of time.

VARGAS: OK. Thank you.

STINNER: Additional questions? I have a couple questions. The providers that could apply for PPP loans and possibly the state grant that we incorporated and, and I think that it was up to \$12,000, was it not? Does that enter into any-- your equation of how much dollars you're going to send out to them?

STEPHANIE BEASLEY: The PPE [SIC], Senator, was not included in the \$20 million.

STINNER: OK.

STEPHANIE BEASLEY: So that's really separate dollars that have been allocated.

STINNER: But if they took down PPP or got grant money, it didn't reduce what you're going to send out to them?

STEPHANIE BEASLEY: I think-- I can ask for the application process if they have to, to list any other funding that they have received, but not to my knowledge, but I can certainly get the application process.

STINNER: Do you have a guess at how many more closures we'll see, permanent closures?

STEPHANIE BEASLEY: No, Senator.

STINNER: No, no survey work or anything along those lines?

STEPHANIE BEASLEY: We continue to maintain the ability to bill for absent days to really continue to bolster the provider network and provide income for those days that, that-- prior to the executive order that they would not have been able to bill for. So we continue to maintain many of those strategies to support providers in an effort to really mitigate the issue of lost income for the provider network.

STINNER: Any additional questions? Seeing none, thank you very much.

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STEPHANIE BEASLEY: Thank you.

KATHLEEN GALLAGHER: Good morning--

STINNER: Good morning.

KATHLEEN GALLAGHER: --Chairman Stinner and members of the committee. I am Kathleen Gallagher, spelled K-a-t-h-l-e-e-n G-a-l-l-a-g-h-e-r. I'm the director of research and evaluation at the Buffett Early Childhood Institute at the University of Nebraska and author of two studies for which I've been asked to provide testimony today. I would also like to share that earlier in my career, I was an early childhood teacher and director of childcare programs. As an employed mother of two, I was a consumer of both family childcare and home-based and center-based care. Quality childcare ensured that I could work, go to school, and build economic stability for my family. In an effort to understand and elevate how childcare providers and their essential businesses were doing in the context of the COVID-19 pandemic and collaborating with multiple state and organizational partners, the Buffett Institute administered two surveys, one in March and a second in June. The one-page handout accompanying my testimony provides some highlights. The first survey targeted professionals in early care and education broadly and identified the need for several practice and policy supports that were enacted in the following months. We learned that providers were stressed, uncertain about their program's ability to remain open, worried about catching and spreading the virus, and struggling to access cleaning supplies and reliable information. Agencies and organizations in Nebraska mobilized efforts and many providers were able to remain open due to policy shifts, private grants, federal assistance, and substantive local community efforts. The second survey, released in June, reached out to only licensed childcare providers in Nebraska and we heard from over 1,000 providers. That's roughly a third of all the licensed providers in the state. Three-quarters were family childcare home business owners and the remaining were center-based owners or directors. Once again, providers told us that they were experiencing incredible stress due to economic, health, and social pressures. The economic impacts of the pandemic on childcare providers and businesses have been staggering. Almost all providers reported that they had experienced a reduction in income and 1 in 4 experienced a reduction of 50 percent or more of their income. While statewide, many programs have closed, only a quarter of the respondents with closed programs were accessing unemployment benefits. What we do not know about closures from our survey is how many available slots were lost and in what communities programs closed. But depending on the local community context, one

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closure can leave families unable to work and crush a local economy. Thankfully, many of the providers who responded did benefit from some of the available assistance. However, childcare centers were three times more likely to benefit from federal assistance than family childcare homes were. Providers also reported benefiting from important policy shifts that Stephanie Beasley attested to that allowed them to be compensated through the childcare subsidy program when children could not attend due to the pandemic. So how are childcare Nebraska-- providers in Nebraska doing? Less than a quarter have access to paid sick leave to cover a two-week illness such as COVID-19. The majority do not have employer-sponsored healthcare. If they risk caring for children during the pandemic and become ill themselves, many don't have health insurance to cover treatment or a hospital stay. Keeping their businesses open comes at extremely high personal risk for themselves and their family. Over half the providers in our survey reported experiencing symptoms of depression. And yet, they soldier on, performing their role, caring for and educating Nebraska's future workers and voters. They literally hold Nebraska's future workers and voters in their arms while families work and go to school building that future. A majority of these providers reported that they were worried that the stress of the pandemic was negatively affecting the quality of care children were experiencing. Brain scientists document that would-- documented that when children's caregivers, parents, or childcare providers are not well, children do not learn and develop well. So what does this mean for Nebraska? As a sobering finale, we asked providers to estimate how their childcare business would survive in the current context. Over half said that without financial assistance, they would probably or definitely close if the pandemic worsened or continued. Let me repeat that. In the context of a continuing or worsening pandemic, over half of the childcare providers responded that they would likely close. The financial support that childcare systems need to thrive has long been neglected to your points and providers are reporting that the likely impact of COVID-19 is that their businesses may not continue to provide the public good that childcare provides for Nebraska's families, employers, and communities. As this committee and the full legislator [SIC] wrestle with stabilizing the economy in the light of the pandemic, please be assured that the institute is very committed to working with you. I'll leave you with copies today of the survey reports and my remarks and let me know if you have any additional need for information upon today. And thank you for your time and I welcome your questions.

STINNER: Any questions? Senator Dorn.

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DORN: Thank you, Chairman Stinner. Thank you for being here. Those are some sobering statistics that that many of them are affected and, and needing financial assistance. Have you noticed or-- that survey, I think, was done in the summer--

KATHLEEN GALLAGHER: Um-hum.

DORN: --in June or something. Have you noticed or, or what is the response back for them now that school has opened up? Is that giving us more open spots in childcare or is that stabilizing it or what is the feeling on that?

KATHLEEN GALLAGHER: So, so you're right that the first went out in March, right as the pandemic was being experienced here, right? And the next went out in June and we reported those a little over a month later. Already, many providers were telling us that they were serving school-age children in remote learning and didn't know how they were going to be doing that. They were seeing more school-age children in general. So we saw this drop in enrollment across all age levels, except school age, both childcare-- because a lot of summer-based, school-age programs were closed, right, so serving elementary kids. So they were already serving more school-age children and they were reporting-- and by the way, that's across family childcare homes and center based, OK? They were also reporting being very worried about what they were going to do in the fall, how they-- how were they going to teach a second grader, right, care for the second grader and handle the infants and toddlers that they were also caring for? So they were really very worried about the same, same as many of us, the uncertainty, enormous uncertainty. Thank you.

DORN: Just how are you-- are you planning on doing another survey then? You did March, June and are you doing another one or is--

KATHLEEN GALLAGHER: Thanks for asking. Currently, there's a survey out called a market rate survey asking all of the childcare providers in the state to tell us about their, their fees. We don't want to draw away from that so we probably will not do one in fall. Going forward, if the need is there, we will do it. We, we did these surveys to hear the voices of the providers.

DORN: Thank you.

KATHLEEN GALLAGHER: We wanted to hear from them, so--

DORN: Thank you.

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KATHLEEN GALLAGHER: --we'll see.

STINNER: Additional questions? I have a couple questions. When you heard from providers, were they getting state dollars, was there barriers that they thought were unusual barriers so that they could get reimbursement money?

KATHLEEN GALLAGHER: There were individual stories of barriers, but in general, many of these folks had been able to access the federal, right, the P--

STINNER: Right.

KATHLEEN GALLAGHER: --the, the payroll protection and many had-- and some were accessing unemployment, mostly center-based providers. The state funds that, that Stephanie Beasley described were not available as of yet. Those came after this survey. I'll tell you that they, they did tell stories of some had difficulty accessing the resources. One stark difference was the childcare centers were able to access funding much more easily than family childcare homes. And one of the key features in that was the childcare centers had a relationship with a local bank and most family childcare providers did not. So they needed some help getting that federal funding and centers had more sophisticated systems around accessing that.

STINNER: That was another question. The 63 that were reported permanently closed, do you have a feel if there were centers, how big they were, where they were located, those types of things?

KATHLEEN GALLAGHER: No, I don't, but we can try to get that. I'll tell you that the closure representation in our survey was lower than the actual because I imagine closed providers didn't fill out our survey. So-- but, but, but I think it was distributed and varied by region and, and varied by a lot of different things. But I think that would be really good information to tease apart and, and we could work on trying to identify some of that with HHS.

STINNER: OK. Thank you. Additional questions?

KATHLEEN GALLAGHER: Thanks so much for your time.

STINNER: Thank you very much.

MARIAH STOWE: Good morning.

STINNER: Good morning.

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MARIAH STOWE: Good morning, Senator Stinner and members of the Appropriations Committee. My name is Mariah, M-a-r-i-a-h, Stowe, S-t-o-w-e. Thank you for giving me the opportunity to come speak today. This is my first time testifying, so bear with me. I'm a member of the Nebraska Early Childhood Workforce Commission that you heard about earlier. I'm also the owner of Splash of Color Child Care, a licensed childcare program here in Lincoln. We are one of more than 3,000 licensed programs across the state of Nebraska. I was born and raised here in Lincoln and seven years ago, I joined the childcare field. Then about four years ago, I decided to open my own program and that's how Splash of Color was born. Owning a business definitely has its ups and downs. Nothing was ever quite as challenging, though, as when the pandemic first started. There were so many decisions to be made and so quickly. It was a lot, considering whether to stay open or not and analyzing the needs of my children's families and of my staff, as well as considering my own family's safety, was very hard. There was no way of knowing if you were making the right decision or not. It was hard to look at the recommendations that were coming out at the time about social distancing and apply them to my job, where we care for and cuddle young children all day long. They don't social distance and I wouldn't expect them to, but could I take that risk and could I ask my staff to take that risk with me? To help me decide, I had a lot of open conversations with my staff and with my husband about what to do. I sent surveys out to the families in my program to get an idea of what they needed from me. And in the end, what it came down to was we couldn't afford to close, so we adapted. We upped our cleaning policies. We added Zoom calls and home-learning kits for the children that stayed home. We also implemented new policies to try to, try to match the information that was coming out. There was a lot at the time, so just to try to stay on top of that and make sure we were moving forward safely. By staying open, we were able to continue serving six children and ensure that those 12 parents could continue working. Of those six children, three of them had parents who work in healthcare at Bryan, Madonna, and the heart hospital here in Lincoln. They didn't have the option to work from home. I don't know what they would have done if we had closed and on such short notice. The other three children who came to the program came because their families couldn't complete the work that was expected of them at home, while also caring for such young children. Childcare was and is still needed, whether families are working in the home or out. Family childcare providers like myself typically care for 8 to 12 children, depending on the type of license we have. We help these children play, learn, explore, manage their feelings, and share with others and honestly a lot more before they go to kindergarten. We know that

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children learn best through play so we work hard to ensure that that play is beneficial and that it-- they can continue to grow to their fullest potential in many different developmental areas. Every moment they're with us, they're learning. In my program, we assess the children to ensure that they are continuing to grow in different developmental areas. The play is geared to help them develop these skills and continue to move forward. We also do developmental screenings to help catch any potential developmental concerns and get started with early intervention services if needed. However, we're not just educating young children. When we care for those 8 to 12 children, we're also helping 16 to 24 working parents. One home provider alone can impact 16 to 24 working parents. Through this challenging time, the Department of Health and Human Services has been helpful to programs by giving information about the local requirements from the health department, as well as information about grants that can help programs just stay afloat. Without that funding, a lot more programs likely would have closed. They also have been helping to reopen programs that have closed when possible. I-- they have made decisions so quickly and I would just like to publicly thank them for taking steps to help families and children, as well as childcare providers. I come before you today so that you can better understand what one childcare program can do and does do on a typical day in Nebraska. We nurture children and help working parents stay working. I don't know what will happen if the pandemic continues or gets worse this coming winter season. While I've adapted, it hasn't been easy and many programs haven't been able to continue going. Thank you, Senator Sinner, for raising this issue and for inviting me to come speak today. I'd be happy to answer any questions you have.

STINNER: Thank you. Questions? Senator Dorn.

DORN: Question: I think you talked a little of-- like, from Department of Health and Human Services or other funding. Without that type of funding, would-- even though there was care absolutely needed, would you have been able to stay open?

MARIAH STOWE: For me, I'm one of the programs that they talked about earlier where my husband is the one who provides the income for my family. And so likely without him, we wouldn't have stayed open, only caring for six children. That was a pretty big reduction in our income and so without having his steady income, we likely would have made a different choice and I don't know that our program would still be open.

DORN: Thank you for what you do to help.

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MARIAH STOWE: Thank you.

STINNER: So you normally have how many children?

MARIAH STOWE: We normally care for 12 children. We are licensed for 12, so we're one of the larger home programs. So it was about half of our children that came and half of them stayed home, so--

STINNER: It's nice to hear HHS has been helpful.

MARIAH STOWE: Yeah.

STINNER: Do you get a sense of other providers in Lincoln, where they're at? Do they see reduced numbers and--

MARIAH STOWE: Yes, especially with-- now that school has started, many providers saw-- at-- in Lincoln, LPS is still open. And so some providers, we see children go off to kindergarten. And so then we're looking at filling those spots and it's really difficult to fill those spots when you're also considering where will these parents go if they have school-age children and they want to-- school closes because we're in the red, then where will those children go? They may want to come back and you only have so many spots. So working to juggle your ratios and deciding whether to take new children or wait and fill those school-age spots is a lot for programs all across the state, really.

STINNER: Are you aware, in Lincoln, of any center-based, larger institutions that have closed?

MARIAH STOWE: I'm not-- I know many of them-- a lot of the centers closed from March to May. Thankfully, by mid-May, a large majority of the centers were able to open again, so that has helped a lot. But I think even if you do a quick search of need for spots and centers that are saying we have openings, almost every center has openings, even some of the higher-quality ones like the-- Ruth Staples at UNL. Typically, they don't have openings and even right now, they have openings. So there is definitely a lot of openings.

STINNER: Any additional questions? Seeing none, thank you very much.

MARIAH STOWE: Thank you.

DIANE TEMME STINTON: Good morning.

STINNER: Good morning.

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DIANE TEMME STINTON: Chairman Stinner, members of the Appropriations Committee, my name is Diane Temme Stinton, spelled D-i-a-n-e T-e-m-m-e S-t-i-n-t-o-n. I'm the chief executive officer at TMCO and the second generation of our family business started by my father in 1974. Thank you for inviting me to testify today on LR390 and the importance of quality early childhood opportunities for Nebraska's working parents and families. TMCO is a mid-sized contract metal manufacturing company in Lincoln, Nebraska. We have over 190 employees, but we think of them as 190 families. Just under 40 percent of our employees have come as immigrants or refugees who seek better opportunities in this country. When our first refugee retired in 2017, he had worked for TMCO for over 30 years. At his retirement, his three successful adult children each thanked TMCO for providing their father employment so that they were able to have opportunities in life. And it was then that I really grasped the impact companies can have not only on employees, but on the next generation. Through candid conversations with employees over the past few years, I was truly shocked how many were burdened with the cost and the lack of available childcare in Lincoln even before the pandemic. There was a pattern to the stories about barriers, waiting lists, and shortages. In 2019, TMCO began connecting our working parents of young children to affordable, quality services. We do this through partnership with childhood education programs, providing early enrollment opportunities, and by offering a subsidy up to 55 percent to offset the cost. We are proactive because employees need our help. As an employer, the current childcare infrastructure does not adequately support the workforce. This is a crucial issue to address, not only for our company, but for our state as a whole. Nebraska consistently ranks among the top states in the nation for its percentage of working parents with young children. And so it is highly alarming, as we heard before, that 91 percent of Nebraska counties lack sufficient childcare slots to meet the current demand. Young working parents are a vital segment of our statewide workforce. Nebraska will cease to be an attractive place to work if these parents are forced to make choices between their employment and their families. Our company has seen the loss of valuable employees in situations where the cost of childcare exceeded the benefit of employment. Companies are affected by limited childcare options. If COVID-19 would threaten closure of childcare and early education facilities due to less enrollment, loss of income, or for safety reasons, the effect on our workforce would be catastrophic. We cannot afford for these things to happen if we hope to recover from COVID-19 and stay on track for economic growth. We need Nebraska to be competitive, which means that our workforce needs access to childcare resources. Addressing the shortage of affordable, quality childcare in

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our state will not be solved by a single entity. LR390 sets the stage for Nebraska's public and private sectors to work together on this challenge. Together, we can find ways to increase capacity, add childcare providers, and make quality programs more affordable to our state's hardworking parents. Our families, employers, communities, and our economy depends on this. Thank you for allowing me to testify this morning today on LR390. Thank you, Senator Stinner, for your leadership on this important issue. On behalf of TMCO and Nebraska's employers, I hope today's conversation will help point the way towards improving affordability and access to child-- to quality childcare in our state. Thank you.

STINNER: Thank you. Senator Vargas.

VARGAS: Thank you very much for being here and, and for listening to your employees and, and, and having this engagement around providing the subsidy. So what, what has been the impact of that? How many employees are taking advantage of the subsidy and what impacts have you seen since then of those-- for those individuals?

DIANE TEMME STINTON: Sure. So we started this last year. In our first year, I think we served four families, five or six children, and the, the impact has been incredible. I know some companies that they, they don't offer childcare benefits because they feel that it would be discriminating against employees that maybe don't have children. And everybody that I've talked to, employees that, that don't have young children are very supportive because they understand the burdens. They have neighbors, friends, children, family members that are all affected by childcare. We've also had families that, because we serve the refugee and immigrants, the impact of and of early childcare also helps them to learn the education system, to, to learn language, and also to identify developmental disabilities. We actually had a family who their child was identified as autistic. They were connected to learning services through LPS and so that child has a, a, a better chance of, of kindergarten readiness. So, you know, those things put together, I feel that we've really made an impact and we are really helping families become connected to these services.

VARGAS: Thank you very much for offering a service and I look forward to hearing more about it.

DIANE TEMME STINTON: Thank you.

STINNER: Any additional questions? Just for the record, TMCO does what?

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DIANE TEMME STINTON: So we're a contract metal manufacturer, so we just make metal components. We're a, a job shop.

STINNER: Did you have to close during COVID or--

DIANE TEMME STINTON: We did not.

STINNER: Didn't lay anybody off or--

DIANE TEMME STINTON: No, no. We really fought to keep everybody safe, to put safety measures in place because stable employment is so important for people, especially throughout this crisis. And we want our employees to know that, you know, their, their employment is stable.

STINNER: Very good, thank you.

DIANE TEMME STINTON: Thank you.

STINNER: Any additional questions? Seeing none, thank you very much.

DIANE TEMME STINTON: Thank you.

STINNER: That concludes our testimony on LR390. I'm going to waive closing. We, we can take a small break between now and the next LR. I think Senator Howard's here, but let's take a ten-minute break. And thank you very much for the testimony.

[BREAK]

STINNER: Please, we're going to-- we're going to go to the LR407. Excuse me, we're going to start back up again. LR407, which is our annual event of discussing the Health Care Cash Fund. Thank you, Senator Howard. It's great to see you.

HOWARD: Great to see you as well. Good morning, Senator Stinner and colleagues. I'm Senator Sara Howard, H-o-w-a-r-d, and I represent District 9 in midtown Omaha. Today, I'm here to discuss with you LR407, an interim study to examine the long-term fiscal sustainability of my dearly beloved Health Care Cash Fund. Created in 2001 through LB692, the Health Care Cash Fund is principal and investment income from the tobacco settlement funds. The purpose behind the genesis of this cash fund was to create a long-term funding mechanism for healthcare in Nebraska. Money from this fund is used for an array of healthcare services in our state, including biomedical research, the Children's Health Insurance Program. It supports some of our match for

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our CHIP program, our behavioral health regions, the Developmental Disabilities Program. It, it addresses some of our waiting lists and our priorities within the DD programs, as well as our public health departments, which have been critical during the pandemic. The importance of the Health Care Cash Fund continues to be vital and now is a good time to examine if statutory or funding changes are needed to ensure the ongoing viability of these funds. I think all of you have this. If you don't, I'm happy to go make copies for you, but it's the Investment Council's report from September 22, so from last week. But I'll just read the bottom line into the record. So the healthcare endowment is forecast to have net distributions ranging from \$29 million to \$33 million per year through 2035. Based on the council's current capital market assumptions, net outflows of roughly \$18 million per year, adjusted for inflation, are at the top end of what the endowment can sustain while preserving real purchasing power. Another way of looking at it, net distributions are forecast to be 6.5 percent to 7.5 percent of endowment market value per annum. The endowments can sustain net distributions of only 4 percent of market value per annum if the goal is to preserve the endowments real purchasing power. That is our most recent report. Essentially, we're sending more money out of the, out of the fund than it can reasonably sustain. The other piece that I want to mention is that at the end of our most recent session, our COVID session, we started to have a conversation about some of the definitions within our master settlement agreement language within statute. And some of those definitions, what I would like you to remember as we move forward, if they take us out of compliance with our nonparticipating manufacturers agreement or our NPM, if it's-- if the Attorney General's Office is not able to enforce our NPM, then we have the possibility of losing the entirety of the funds that we receive annually. And so when we think about the sustainability of the fund, we need to not only think about the way that we're projecting our outflows, but we also need to consider what statutory changes we could make in the future that could harm the sustainability of the fund overall. There are testifiers that follow me who will attest to the good work they do using the resources they are given from the fund. I've also asked Liz Hruska from the Legislative Fiscal Office to go first to give a more complete history and explanation of fund uses. And then after that, I've asked Michael Walden-Newman from the state investment office to just give us an overview of his report. I appreciate you taking the time today to discuss the Health Care Cash Fund and I'm happy to try to answer any questions you may have.

STINNER: Questions? Seeing none, thank you very much.

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HOWARD: Thank you.

STINNER: Good morning and it's great to see you.

LIZ HRUSKA: Good morning, Senator Stinner and members of the Appropriations Committee. My name is Liz Hruska, it's L-i-z H-r-u-s-k-a, and I am with the Legislative Fiscal Office. It's always a pleasure to be before this committee. As Senator Howard said, I'll be presenting an overview of the Health Care Cash Fund. The Health Care Cash Fund initially consisted of two funding sources, the Medicaid intergovernmental transfer and the master tobacco settlement. Later, one point-- \$1,250,000 of the cig-- cigarette tax was added in 2015. The Medicaid intergovernmental transfer was a loophole in federal law that allow-- allowed states to overpay certain nursing facilities and retain the amount of the federal overpayment. Congress eventually phased down and then eliminated the lip-- loophole, as most states started to take advantage of it. At the direction of the, of the Legislature, the fund is being drawn down to zero because it no longer has a revenue source. The balance in the fund as of June 30, 2020, was \$20,000 and-- \$20,358 and that was just the residual of the investments last year. So eventually, that, that will all be drawn down. The tobacco settlement fund was created in response to a legal set-- settlement Nebraska entered into with 26 other states. The basis of the settlement was that states paid more in the Medicaid program for tobacco-related illnesses because of the marketing of tobacco products. The funds come to the state unrestricted, so Nebraska set their own path, designating the funds for, for healthcare. The Legislature directs the use of the funds. All states are required to-- as Senator Howard said, are required to enforce the provisions of the settlement reg-- relating to the nonparticipating manufacturers. Failure to comply with this provision can result in the loss of up to the entire master settlement agreement for any given year when the state has been determined to not have met the enforcement requirements. The settlement agreement contains the formula for distributions of the funds. There are several factors in that calculation, one being tobacco sales, enforcement compliance being another. The annual revenue varies, but is averaged around \$37 million a year. This annual revenue will decline as smoking declines. That is the projection that is provided in the report prep-- prepared by Ann Linneman in the DAS Budget Office, which is attached to the report you have in front of you. The balance in the fund was \$449.6 million on June 30 of 2020. The IGT and tobacco settlement funds in, in statute are called trust funds, but they do not meet the definition of trust funds. Trust funds have restricted purposes that are contained in a trust. This is important as the Legislature can change the amount and

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distribution of these funds at any time and has done so frequently. So there is nothing that protects these funds as if they were trust funds. The State Investment Council is charged with investing the money and through-- and is required to report to the Legislature on or before October 1 of every even number year on the sustainability of the Health Care Cash Fund. That, that report was just completed and you will be briefed by Mike Walden-Newman on following me. The original intent was to stain-- was to sustain the fund into perpetuity. In the 2020 Investment Council report to the Legislature, it shows, as prior reports have shown, that the sustainability of the fund is at risk at the current expenditure levels. The use of the Health Care Cash Fund has changed over time. Initially, it was only to fund a healthcare grant program with a three-year limit on programs receiving funding and it also fully funded the Children's Health Insurance Program for about five, five years. In 2001, LB692 was passed. LB692 continues to be the framework for the Health Care Cash Fund. The Legislature, in the bill, changed the focus from short-term grants to long-term support for a wide, wide range of health programs, most of which still receive funding today. Some of those programs are enforcement through the AG's Office and the Department of Revenue, support for public health, as Nebraska, at that time, was consistently either 48, 48 or 49th in public healthcare funding. Behavioral health received funding because providers at that time had not had a rate increase for five to six years prior to 2001. Other programs it supported, it-- is aid to the dev-- developmentally disabled, emergency protective services, respite care, and substance abuse treatment. The new revenue source also provided an opportunity to enhance biomedical research in the state and a separate bill provided funding for tobacco prevention and control. Page 5 of the report you have in front of me lists the programs that currently receive funding and you can see there's quite an extensive list. Programs that were added over time include the Poison Control Center, Parkinson's Disease research, the, the state match for Medicaid Smoking Cessation services, Stem Cell Research, federally qualified health center-- centers, and gambling assistance. More recent, recent additions are the Brain Injury Trust, the Nebraska Children's Commission, and the 211 assistance line. Some funding has been for one-time or time-limited activities. In general, these were, were studies, capital construction, temporary funding for A bills, and transfers to the General Fund. The report I prepared provides greater detail on all aspects of the Health Care, Health Care Cash Fund and the related funds. In conclusion, if the intent of the Legislature is to continue the fund in perpetuity, the Legislature will need to establish priorities for the fund and reduce the total amount of spending from

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the Health Care Cash Fund to address the sustainability issue noted in the biennial Investment Council report. With that, I would be happy to answer any questions.

STINNER: Thank you, Liz. On page 4, I think for the committee's purposes, describe what deposits-- what is the source of the deposit [INAUDIBLE]?

LIZ HRUSKA: The deposits are the-- currently, it's just the settlement funds.

STINNER: Right.

LIZ HRUSKA: In the past, it was also when we were using the federal overpayment from the Medicaid Intergovernmental Trust Fund.

STINNER: OK, then why do we have a negative \$1,774,000 versus \$39,000 versus 40 per--

LIZ HRUSKA: Well--

STINNER: --\$49 million versus 10?

LIZ HRUSKA: That-- there is an issue and I was unable to resolve it. We actually received \$38 million. In the current fiscal year, our April deposit from the settlement was \$38 million. Last July, for some reason, which I spent well over an hour with Ron Carlson, the head of DAS Accounting, yesterday to figure out why they moved \$38 million. It looks like it was-- should have moved-- been moved internally, but it's not reflected on the accounting reports.

STINNER: But it would be reflected at some point in the balance of \$449 million so they--

LIZ HRUSKA: Right, right.

STINNER: --could add 38 to that.

LIZ HRUSKA: So--

STINNER: And, of course, the earnings, I think we all understand what 2020 was about. It's COVID. I'll have my investment friend over here explain that away, but-- then, you know, on page 5, you've been in this game longer than I have, tell me what priorities you would have to cut-- to get-- and how much do you recommend that we cut out of this?

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LIZ HRUSKA: I think I'll leave the recommendation to Michael to, to give you that, since--

STINNER: No, I, I meant on page 5 where we got all this list of, I don't know, 25 different items that we're contributing to. If we had to prioritize it--

LIZ HRUSKA: Oh.

STINNER: --over your experience, what-- how much should we cut out of the \$62 million that we're actually using today to get to a number that's satisfactory and what would it be?

LIZ HRUSKA: Well, I don't have that number. I think Michael can give that to you. I definitely would start with not adding new programs, which the Legislature has been doing pretty consistently from the beginning. The initial transfer to the Health Care Cash Fund in 2000-- I think the first transfer would have been made in fiscal year 2002, was \$48 million and now we're at almost \$63 million. So you can see there has been a gradual increase. I listed off some of the additional programs that, that we have funded. As far as what to eliminate, I guess that's something we would need to have a discussion about. I'm not sure I-- my opinion should be the sole, sole factor in determining that list.

STINNER: But my-- I guess my comeback to your-- to the idea that we are increasing at an extraordinary rate versus where we were at, one has to only look at the balances that were carried in 2000 that we were \$114 million. Now we're at-- if we adjust for it, almost at \$500 million. So therefore, if we get normal markets and make an average of 6 percent is what I would throw out as an average, along with \$35,000-- or \$35 million or \$36 million, one has to only add and subtract. You've got \$62 million, \$66 million coming in from there. You got \$4 million potentially to add to the balance and in my estimation, that's sustainability. In the interpretation of some other people, it isn't sustainable because you don't have an inflation factor in there. That's the two definitions of sustainability, whether you hold everything equal and allow the balance to grow through earnings and deposit or that you suddenly artificially put some kind of an inflation factor in for all of these categories.

LIZ HRUSKA: And it's also the projected decline as smoking is declining.

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STINNER: How smart would it be for this Legislature today to say, OK, we're going to go from funding \$62 million of these items to 48 or \$50 million to fit into that sustainability definition? And so therefore, we have to start to look at what we're going to cut out of there and potentially move to the General Fund budget. Well, good luck on that.

LIZ HRUSKA: Right.

STINNER: So, I mean, that's where we're at today. And I'm not scolding you, I'm making a point for the record and I'll stifle myself from now on, so--

LIZ HRUSKA: Well, obviously, all of these programs are fulfilling a need or they wouldn't, wouldn't have been enacted. So they're-- if you need to reduce the expenditure out of the fund, you either do need to shift it to another funding source, the natural one would be the General Fund, or make some hard decisions. But again, all of these programs are serving a good purpose, which is the difficulty. I'll leave it at that, I guess.

STINNER: OK. Well, the Tobacco Prevention and Control, we could cut \$2.5 million out of there because that's counterintuitive to what we're receiving funds for. I just throw that out as a jest. Anyhow, additional questions? Senator Clements.

CLEMENTS: Thank you, Chairman Stinner. Thank you, Ms. Hruska. The list on page 5, is that in the chronological order of when these programs were added? Do the program numbers mean they were-- is the bottom one the last one that was added, the top one the first?

LIZ HRUSKA: No, it's actually by agency order number. And then within that, it's not-- it's somewhat in chronological order, but I haven't been real careful to document that in this list that way.

CLEMENTS: I'd be interested to see what, what are the extras that have been added, how much those are in "chronicological" order.

LIZ HRUSKA: I actually do have--

CLEMENTS: If we have a--

LIZ HRUSKA: --a long-term chart, starting with the beginning of the fund that takes it through every year and shows the funding levels, so I can get that to you.

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CLEMENTS: If we're going to have to learn-- figure out what's the most important, it seems like we should look at what was funded first and what was funded last, so I'd be interested in seeing that.

LIZ HRUSKA: Yeah, I'll make sure, sure the committee gets it.

STINNER: Additional questions? Sorry, I was doing some adding and subtracting just to check my numbers.

CLEMENTS: Oh, one more.

STINNER: Yes, Senator Clements.

CLEMENTS: He carried over one from this morning.

HILKEMANN: I yield my question.

CLEMENTS: Yeah.

STINNER: Hilkemann just yielded you his question.

CLEMENTS: You mentioned this \$38 million. It doesn't show up on page 4. That is going to be showing up or is it not?

LIZ HRUSKA: I would assume it will. It, it's a very confusing situation. I have monitored this fund as well as other cash funds. We do, every other year, a cash fund book that you see. I've never encountered a situation like this. The year-end report showed that there was a negative revenue, so I started looking. Back in last July, there was a transfer from the code where they deposit the settlement. The transfer document shows that it should have gone into the balance, but the balance did not increase by the same amount. So Tom Bergquist and I, yesterday, met with Ron Carlson, who heads DAS Accounting, and the three of us could not figure this out. Ron is going to continue to, to work on it. After I left, Tom and I continued to try to trace through the transactions. I don't think the money has left, I'm just not sure where it's being reflected, if there was some error. So that balance, I would think, would go up because actually in the last fiscal year, we did not have a negative revenue.

CLEMENTS: That was my question. Would the \$449 million go up if, if you find the \$38 million? Is the 449 including the \$38 million or not?

LIZ HRUSKA: No.

CLEMENTS: No. OK, so we're--

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LIZ HRUSKA: So hopefully it will increase by that once-- unfortunately, I discovered this, got ahold of Ron, but there was-- and he, he contacted me back, but there was some miscommunication. So I ended up meeting yesterday afternoon and because of the complexity of this, we weren't able to resolve it. But I will be informing you and Senator Howard once a resolution is determined.

CLEMENTS: It's an important thing is you're going to continue to work on this and figure it out, right?

LIZ HRUSKA: Right, right.

CLEMENTS: Thank you.

STINNER: Senator McDonnell.

McDONNELL: When, when you and Ron and Tom looked at it, it did not go up by \$38 million. How much did it go up by?

LIZ HRUSKA: Well, it didn't. The \$38 million was the April tobacco settlement deposit. But for the full fiscal year, it shows as a negative number because the prior April deposit of 39-- I think \$39.8 million--

CLEMENTS: Yes.

LIZ HRUSKA: --as I recall--

STINNER: It was \$39 million, yeah.

LIZ HRUSKA: --was moved, but it appears to have not been moved internally to the fund, but somewhere else. That's what we haven't determined.

McDONNELL: Has this happened before?

LIZ HRUSKA: No, not with any of the funds that I monitor and not ever with this fund. There's-- you know, from Ron Carlson is about the best that you, you can get as far as-- you know, he's head of state accounting. He, he was in the Auditor's Office at one time. Because it looks like there may have been another error created somewhere and we are trying to determine that. I don't think the money has left the state. It's just not being reflected in this fund.

McDONNELL: Thank you.

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STINNER: Additional questions? Seeing none, thanks, Liz. I appreciate it.

LIZ HRUSKA: Thank you.

MICHAEL WALDEN-NEWMAN: Hi.

STINNER: Great to see you again.

MICHAEL WALDEN-NEWMAN: Mask off, right?

STINNER: Yeah.

MICHAEL WALDEN-NEWMAN: OK. Hi, everybody. My name is Michael Walden-Newman. That's M-i-c-h-a-e-l, last name is W-a-l-d-e-n-N-e-w-m-a-n. I'm the state investment officer at the Nebraska Investment Council. And as you all know, the Investment Council is a state agency set up to invest all of Nebraska's public funds. We have about \$30 billion, about half of that are various retirement funds for state, county, school employees, judges, and highway patrol. Of the \$30 billion, about \$1.4 billion, let's say, are endowments and trusts. And of that, the largest is the school-- common school fund is \$850 million. And the, the health care fund, which is the fund in which we invest the tobacco settlement money is about 4-- well, I think it's 430-- \$420, 30 million-- we set up and I'm telling you stuff you all already know, but we set up asset allocations for each of the pools of, of money. And so for the example, for the, the pension funds, the asset allocation is 70 percent in stocks and some private investments like private equity and some private real estate funds, 30 percent of it are in-- of those retirement funds are in bonds. For the endowments, the asset allocation for most of the endowments is 50/50; 50 percent in public and private equity investments and 50 percent in fixed income. And the reason for that is to enhance the income generated in the endowments and trusts, which we distribute to the underlying trusts. There are many and again, they range from-- the school fund is this \$800 million and we have a little one that's about 27-- now down to about \$27,000. That was set up years ago in someone's will to provide help to the widows of university professors and so that's a part of the \$1.44 billion. The health care fund, on the other hand, is, is yet different. It's commingled inside of the rest of the endowments, except that its share is a bit different. The share of the equity, public and private equity portion, is 75 percent. And the bond side, the fixed income side, is 25 percent. And the reason for that is the same reason we have the higher equity exposure in the pension funds and that is to allow the funds

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to, to grow and to keep pace with inflation. And so the health care fund, because of the nature of the, the distributions, we're trying to generate growth inside of that fund as well as having an, an income stream. So I, by law, report every other year and, and this is the year, but again, as you all noted, we were here last year talking about this too. I'm rep-- the State Investment Officer is required by law to provide a report to the Legislature on the sustainability of transfers from the health care fund. And the health care fund isn't restricted to spending just the, the revenue, right? The-- it is not just the income generated, but there are fixed amounts set by the Legislature. And so we do that and the-- you've already heard the bottom line, and it's one that we've repeated in prior reports, and that is that the outflows from the fund are not-- are, are too high to be able to sustain the fund in perpetuity. And Senator Stinner already hit what, I think he and I both have agreed in prior conversations like this, is-- a bit of the difference is, is that our projection builds in an inflation protection for the fund that-- and our inflation is about 2 percent. The-- how we come up with what we think the fund is going to make, in other words, the projected return of the fund, we do that for the funds that are under our management. We, we do it for the pension funds and we do it for the endowments. And we, we complete those-- capital market assumptions is the phrase-- for the percent that we think the funds will grow. Those we, we publish each September. They're using June 30 data. And when I say we, we present them to the council, my board, at our September meeting, but they're prepared by our investment consultant, which is a firm called Aon based in Chicago. And again, you know this, but the investment consultant is not one of our investment managers. We have investment managers that, that, that manage the-- all of the funds except for the state's checkbook, which we, we manage in-house, which, by the way, I should say, is up over \$5 billion now with the federal aid that's been deposited because of COVID, usually runs \$3.5 billion or so. But that-- the consultant helps us in setting a number of things; pol-- investment policy. So they're a part-- that's why you see their name on this report. They help us vet the investment managers and they come up with-- we rely on their capital market assumptions to give you and the retirement boards, both in Omaha and here at, at-- the NPERS here in, in Lincoln-- our projections of what those portfolios will make. So, Mr. Chairman, again, you've heard the bottom line. And you actually-- what Senator Howard presented was the percentage differential, but I came prepared because I thought that someone would say, OK, well, well, how much money is that? And it's-- you'll recall two years ago, I said that the spending should probably, on the safe side, be about \$55 million a year to sustain the, the spending into

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perpetuity. And now with our capital market assumptions being lowered because of markets in the long term, I'd say you'd hit it at \$50 million, probably. But the difference is what, what you said, Mr. Chairman, between a view and another view and that is the, the inflation factor. I'm, I'm not going to go through the report page by page. You all have it. You've heard it before. But that's the gist of it. I'm happy to visit about, I'm happy to visit about anything, about the investment program, but anything specific to this.

STINNER: Questions? I just have to ask this question. Obviously, this investment return for the fund was as of June 30?

MICHAEL WALDEN-NEWMAN: Correct.

STINNER: Since that time, obviously, we've seen markets rebound and the like of that. What are you seeing for the first quarter-- in terms for the first quarter?

MICHAEL WALDEN-NEWMAN: Projecting forward?

STINNER: Yeah, we're only--

MICHAEL WALDEN-NEWMAN: I don't-- yeah, I don't do that.

STINNER: --we're only one day or two days shorter--

MICHAEL WALDEN-NEWMAN: Yeah--

STINNER: --in September, so--

MICHAEL WALDEN-NEWMAN: I can tell you instead, looking back for sure what happened, because none of us knows what's going to happen.

STINNER: Right.

MICHAEL WALDEN-NEWMAN: And we've seen markets shift in just a few days in the past. But to give some perspective on what we've all been through-- and you've been through it personally and anyone you know who's in the state's pension system has been through it, definitely in December of 2019-- remember how much fun that was? And a lot more fun than December of 2018, but in December of 2019-- and I haven't for the health care fund, but I have it memorized for the retirement system. Those plans were up 19 percent and then in March, those plans were down 14.5 percent. And the retirement plans ended the June 30 period at 2.2 percent, so--

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STINNER: Markets do fluctuate. Market has come back--

MICHAEL WALDEN-NEWMAN: Um-hum.

STINNER: --is my point.

MICHAEL WALDEN-NEWMAN: Right, that's correct.

STINNER: We'll probably hit this cutoff at a pretty low spot in the market, so one would say if we have normal markets, we'll probably be somewhere close to that 6 percent mark.

MICHAEL WALDEN-NEWMAN: The projected-- just to repeat out loud what's in the report, the projected long-term return for the health care fund is 5.6 percent.

STINNER: Right, and then--

MICHAEL WALDEN-NEWMAN: And there's volatility around that and volatility is just the standard deviate-- but it's a fancy way of saying how much can that fluctuate over this, this 10-year or 30-year time horizon, depending on what you're talking about? And it's 12, so that's why you see, inside of the report, three, three projected lines in balance of the health care fund. You see one on the upside that is 5.6 plus 12, right? So that's a nice return, right? That gets you to December of 2019 return. And then you say 5.6 minus 12 and that's not as attractive. So the midline that you see in our report is the projected 5.6 for the, for the health care fund. The last thing I'll add is that the Legislative Fiscal Office was correct. There used to be two funds going into the health care fund and the Medicaid, the Intergovernmental Medicaid fund, we voided that out as-- distributed that out, per the law, over a two-year period. We'd actually distributed it all in one year and then backed up and did it over two to be to the letter of the law. And now the deposits in are from the tobacco [INAUDIBLE].

STINNER: Thank you for that.

MICHAEL WALDEN-NEWMAN: Um-hum.

STINNER: Additional questions? Seeing none, thank you.

MICHAEL WALDEN-NEWMAN: It's great to see everybody.

STINNER: It's great to see you.

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MICHAEL WALDEN-NEWMAN: Yeah, thanks.

STINNER: Good morning.

DANIEL MUELLEMAN: Good morning, Senator Stinner, members of the committee. My name is Daniel Muelleman, it's D-a-n-i-e-l M-u-e-l-l-e-m-a-n. I'm an Assistant Attorney General with the Nebraska Attorney General's Office and my primary function is the-- in the office is the tobacco master settlement agreement. Our office submitted a letter to the committee. I hope that you all have received your copies and reviewed it. I'm just going to start off my testimony with a-- just a brief summary of the contents of that letter and then open myself up for questions. So in, in the tobacco master settlement world, there is the master settlement agreement that has existed since 1998 and in 2017, multiple state attorneys general signed on to a settlement agreement that has an effect on the NPM adjustment to the master settlement agreement. And the NPM adjustment is an annual potential settlement to-- or a potential adjustment to the master settlement agreement of about \$1 billion when the master settlement agreement itself is a payment liability on the tobacco companies of about 5 or \$6 billion a year. And so this new settlement gives some new payment of apportionment to the NPM adjustment on the annual payments gives the states a little bit more cash up front and allows things to be settled on the back end. After that agreement in 2017, the states signed an extension settling diligent enforcement liability up through 2018. And then just this summer, the states renegotiated with the tobacco companies and signed on to an extension to that settlement agreement and that goes out, I believe, until the end of 2022. And so what that does is it, it moves around some payment-- some settlement amounts and some credits. And it, it, it provides for the next couple of years of a little bit artificially increased settlement amounts, whereas normally, you would see a trend in decrease of payment amounts while cigarette smoking and tobacco use decreases. This keeps it a little bit higher over the next couple of years, brings us to about a normal payment in 2023, what we would get under the settlement agreement, and then decreases in the years after that. And so what we're really doing is just notifying the Legislature that this settlement has been signed and that it, it will keep the settlement payments up for a couple of years, but you just-- we can't avoid the inevitable. And that's what we're trying to say, is that the inevitable is coming and the payment amounts will be decreasing more rapidly than we've seen over the next couple of years. That's it, if anybody has any questions?

STINNER: Questions? Seeing none, thank you.

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TERESA ANDERSON: Good morning.

STINNER: Good morning.

TERESA ANDERSON: Good morning, Senator Stinner and members of the Appropriations Committee. My name is Teresa Anderson, T-e-r-e-s-a, Anderson, A-n-d-e-r-s-o-n, and I am the public health director for Central District Health Department. I'm testifying today on behalf of Friends of Public Health in Nebraska. Thank you to Senator Howard for the invitation to testify today and to the Appropriations Committee for holding the-- for holding this important hearing. I also want to thank the Appropriations Committee for your support of local public health departments in this budget year and throughout this entire pandemic. Your support has provided critical infrastructure funding and is also a morale boost for all of the departments during this challenging time. Our local health department's statewide infrastructure was established in 2001 as a result of LB692 and funded through the Health Care Cash Fund. At that time, \$5.6 million were provided to fund the local statewide system. These dollars are critical for our local health departments and they continue to be the primary source of funding available for carrying out our statutory, statutory-required functions. The necessity of this funding stream has been magnified during the COVID-19 pandemic. Without this funding from the Health Care Cash Fund, we would not have had the infrastructure in place to even begin to handle the contact tracing, testing, community messaging, and serving as a hub for community partners. Our departments use these funds and leverage other funds to address specific community needs that improve health outcomes and reduce healthcare costs. Whether it's pandemic response, high rates of cancer, smoking, diabetes or heart disease, low birth rates, fluoridation of water, lack of adequate dental, medical, or child care, need for bilingual interpretation, injury prevention, automobile crashes, seatbelt usage, underage tobacco and alcohol use, addressing meth use in our community, domestic violence, disease outbreaks, worksite wellness, or environmental hazards, local public health departments have a presence in Nebraska and we are necessary and vitable-- vital if Nebraska wants to become the healthiest state, which of course we all want. Our departments are governed by a board of health, as directed by statute. Members of the boards include physicians, dentists, county commissioners and supervisors, and community members. Local health departments provide an annual report to Health and Human Services Committee of the Legislature on the use of funds and the activities accomplished in our communities. By statute, the department also publishes annual reports for their communities. Local public health funding has not kept up with

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inflation and population growth. When LB692 was passed in 2001, the original funding for public health for population health and infrastructure was set at \$5.6 million. While we truly are thankful for the ongoing support from the Legislature, the funding from 2001 and even from this most recent budget cycle do not account for inflation and population growth in our communities. The current resources are insufficient for addressing the going-- growing challenges of protecting the public's health in Nebraska. There will now be ongoing needs from COVID-19 for many years in the future. In addition to the new COVID-specific needs, we will need to continue to focus on prevention to address the biggest economic driver of healthcare costs in our state and that's chronic disease. Any additional funding would be used to work with local community partners to address health priorities that have been identified by each community to strengthen prevention programs and who-- to improve our capacity to respond to current and emerging public health threats and provide critical resources for local health departments to address our statutory responsibilities. We urge the senators to maintain the original intent of the Health Care Cash Fund and grow the fund. I'm happy to answer any questions you may have and I think I'm "COVID-weary," my speech is not exactly on target today.

STINNER: Any questions? How are, are your staff to get the vaccine out when we get it next month?

TERESA ANDERSON: You know, we're working on that right now. Central District is in Grand Island. Thanks, [INAUDIBLE], I'll tell you all about it. But anyway, so we've got vaccine coming for a test run. This is flu vaccine. So our job is to exercise our plan for mass vaccination. So we're going to work with a community health center in Grand Island and we're going to hold some mass clinics, whereby we can practice, so to speak. So we'll have the scanners that we're going to need when we do get the COVID vaccine, whenever that is, but we'll be practicing, more or less, with our flu vaccine by providing mass clinics over the course of the next few months. And then we'll be ready, hopefully, for that distribution. We have a, a mass distribution plan where when the vaccine comes in or whatever supplies we need come in on pods-- and for instance, Central District is a pod-- and then we, we distribute those to the four surrounding-- to our sister health departments. So we've got plans in place. We've had plans forever and we were looking back the other day and in 2006, we were doing exercises that are related to the pandemic today. So we've been preparing for this, didn't want to see it come, but here we are.

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STINNER: Thank you for that. Any additional questions? Seeing none, thank you.

TERESA ANDERSON: Thank you for your time and your support.

STINNER: You bet. Good morning.

ANNETTE DUBAS: Good morning, Senator Stinner and members of the Appropriations Committee. It's really nice to see you all in person and so glad you're all healthy and staying safe. You got a lot of hard work ahead of you, so I hope that that continues. My name is Annette Dubas, A-n-n-e-t-t-e D-u-b-a-s, and I'm the executive director for the Nebraska Association of Behavioral Health Organizations, otherwise known as NABHO. We are a statewide organization advocating for behavioral health providers, hospitals, regional behavioral health authorities, and consumers. Our mission is to build strong alliances that will ensure behavioral health services, including mental health and substance use disorders services are accessible to everyone in our state. Our association thanks Senator Howard for her fierce determination to protect the intent and sustainability of the Health Care Cash Fund. While other states quickly ran through their settlement dollars, the Nebraska Legislature had the foresight to create the Health Care Cash Fund. We are especially appreciative of their decision to use a portion of those funds to build capacity and support rates in the area of mental health and substance use disorder treatment services through the behavioral health regions and the juvenile justice system, along with dollars to support emergency protective custody services. I would also like to be on the record thanking this committee and the Legislature for including rate increases in the biennium budget, especially during this health emergency, when we know there is an increased need for mental health and addiction services. These rate increases will help our providers keep their doors open and provide critical mental health care. We know that 1 in 5 Nebraskans have experienced a mental illness in the past year; 15 percent of Nebraska's high school students reported they have considered suicide. In Nebraska, suicide is the second-leading cause of death for 15 to 34-year-olds. We also know that inability to afford care is the leading reason that keeps people from seeking care. Eighty-eight of our 93 counties are designated mental health workforce shortage areas with pay and regulatory burdens contributing factors. And behavioral health is especially reliant on public payers. Nationally, 62 percent of funding for mental health treatment and 69 percent for substance use disorder treatment comes from public payers. And Nebraska falls well within those percentages. NABHO believes the Health Care Cash Fund is an important component to help us address

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these alarming statistics and help safeguard the current and future behavioral health needs of Nebraskans. When we read the report from the Investment Council stating, and I quote, there is little the council can do to reverse the downward trend in median portfolio market value, it reinforces the concerns expressed in prior biannual letters that spending exceeds investment income and will eventually deplete the fund. The health care endowment is forecast to have net distributions, distributions-- less contributions ranging from \$29 million to 39-- \$33 million per year through 2035. Based on the council's current capital market assumptions, net outflows of roughly \$18 million per year adjusted for inflation are at the top end of what the endowment can sustain while preserving real purchasing power. Another way of looking at it, net distributions are forecast to be 6.5 to 7.5 percent of endowment market value per annum. The endowments can sustain net distributions only 4 percent of market value per annum if the goal is to preserve the endowments real purchasing power. This information makes our association sit up and take notice. As I stated previously, we truly appreciate what the Health Care Cash Fund provides for our state, especially in the area of mental health. And we again want to thank Senator Howard for her understanding of the Health Care Cash Fund and her dogged commitment to keeping it sound and stable and we encourage the Legislature to follow her lead. Thank you again for your time and attention and I'd be happy to try to answer any questions.

STINNER: Questions? Seeing none, thank you.

ANNETTE DUBAS: Thank you so much for your work.

AMY BEHNKE: Chairman Stinner, members of the Appropriations Committee, my name is Amy Behnke, A-m-y B-e-h-n-k-e, and I'm the CEO of the Health Center Association of Nebraska. Mine is not usually the face you see sitting in this chair, but I have the honor of pinch-hitting today on behalf of Nebraska's seven federally qualified health centers and the 115,000 patients they serve annually. And I would also like to echo our thanks to this committee, to Senator Howard, to the members of the Legislature for their ongoing support of community health centers and to share how important the Health Care Cash Fund is to addressing health disparities and access to healthcare across our state. Nebraska's health centers have historically experienced one of the highest rates of uninsured patients compared to the health centers nationally. In 2019, 47 percent of Nebraska health center patients were uninsured, one of the highest rates across all 1,400 health centers. Health centers are not free clinics. Uninsured patients contribute to the cost of their care based on a sliding fee scale

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calculated by the total income and number of individuals in the household. The health center covers that uncompensated portion of that care through a combination of federal grant dollars and state appropriations. Specifically, the \$750,000 Health Care Cash Fund appropriation for the seven health centers is directly tied to the number of uninsured patients served and is critical to meet the ongoing need for access to care. Last year, Nebraska health centers served roughly 50,000 uninsured patients and experienced a 14 percent growth in overall patient population. The funding received from the Health Care Cash Fund is crucial to ensuring the health centers have the capacity to meet that ever-expanding patient population and that low-income individuals have access to preventative, primary, medical, dental, and behavioral health care. In addition to supporting access to healthcare for uninsured patients, Health Care Cash Fund dollars work to address health disparities and improve clinical outcomes for minority patients. It is well-documented that people of color are more likely to face barriers to access to healthcare, fare worse in health outcome measures, and are significantly more likely to be uninsured. The current COVID-19 crisis has exposed this stark reality in startling fashion. Seventy-seven percent of the over 13,000 individuals who have been tested for COVID-19 at health centers are of a racial and ethnic minority, yet they represent 90 percent of the positive cases at health centers. Health centers have a current positivity rate of about 26 percent compared to the statewide rate of approximately 10.4 percent. Because health centers are grounded in the needs of the communities they serve, they have been able to rapidly adjust to changing patient needs, including remote monitoring for chronic disease, increasing access to telehealth services, and providing wraparound support, including food assistance and pharmacy delivery. The Health Care Cash Funds supports health centers' ability to address chronic disease management through screening, case management, and education programs that are integral to improving overall patient health and decreasing health disparities. The impact of these resources can be seen in the quality of care provided. Overall, Nebraska health centers have the second-best clinical quality in the nation. The Health Care Cash Fund is a unique resource that has served to advance and protect the overall health of Nebraska citizens. Entrusting a portion of those funds to health centers continues to be a cost-effective, comprehensive approach to addressing the healthcare needs of our state, improving access to care, addressing disparities, and enhancing services for our most vulnerable citizens. This funding is vital to supporting high-quality care provided at Nebraska health centers, ensuring they can meet their mission of serving all who seek care

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while continue to provide, provide innovative programs to meet the most critical needs of our patients. And with that, I thank you for your time. I'd be happy to answer any questions.

STINNER: Thank you. Questions? Senator Clements.

CLEMENTS: Thank you, Chairman Stinner. Thank you, Ms. Behnke. Regarding Medicaid expansion, you're talking about uninsured patients.

AMY BEHNKE: Um-hum.

CLEMENTS: Are uninsured all the-- or people without Medicaid?

AMY BEHNKE: It could be people who don't qualify for Medicaid or who fall into that gap and so they, they may not qualify for insurance for a variety of reasons.

CLEMENTS: And do you expect to have a reduction in the number of uninsured with Medicaid expansion?

AMY BEHNKE: We do, we certainly hope so. What national research has shown is health centers see about a 12 percent shift in their payer mix. And so if that would hold true for the state of Nebraska, we would certainly see a reduction in that high uninsured rate for our patients.

CLEMENTS: Those who are uninsured, do you re-- try to refer them to the marketplace where they can get affordable healthcare options?

AMY BEHNKE: We, we sure do. In fact, each health center has outreach and enrollment staff located in their clinics whose sole job is to help people enroll in services, so marketplace programs, Medicaid programs, and providing support and education on how to use health insurance once they're enrolled.

CLEMENTS: All right, thank you.

AMY BEHNKE: You're welcome.

STINNER: Additional questions? Seeing none, thank you very much.

AMY BEHNKE: Thank you.

HOWARD: I think that's it because I'm going to waive closing.

STINNER: You're going to waive closing?

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HOWARD: [INAUDIBLE]

STINNER: Thank you very much.

HOWARD: You're very welcome.

STINNER: Well, that concludes our hearings. We are adjourned. Thank you. Oh, excuse me. I've got a list of folks I got to read into the-- letters of support. I don't have it.