

ONE HUNDRED FIFTH LEGISLATURE

FIRST SESSION

**LEGISLATIVE RESOLUTION 209**

Introduced by Stinner, 48.

PURPOSE: The purpose of this resolution is to study the volatility of Nebraska's revenue portfolio to determine a set of evidence-based savings targets for the Cash Reserve Fund. At present, there is no savings target requirement for the Cash Reserve Fund. An empirically-determined savings target could help ensure that Nebraska has both the savings and resources necessary to fund major priorities.

To determine an appropriate set of savings targets, the level of coverage should be determined to illustrate which proportion of cyclical revenue downturn the Legislature wants to protect against. Additionally, downturn duration should be determined to represent how many years' worth of protection the Legislature desires.

Analyzing the state's historical experience will give an estimate of the persistence of a downturn in one year and how it carries over into subsequent years. High levels of coverage would be adequate to smooth over either a large, single-year revenue loss or multiple years of relatively smaller downturns.

To inform this decisionmaking, the Legislature should aim to establish a consensus around what proportion of Nebraska's spending commitments the Cash Reserve Fund should insure-an assessment that should be inclusive of both mandatory spending on major programmatic areas as well as discretionary spending on core functions such as education and public safety.

To promote an evidence-based policy for the Cash Reserve Fund savings targets and inform public debate, this study should inform the Legislature's understanding of the most pressing fiscal and economic challenges, along with the best methods to address them. This study should improve Nebraska's fiscal management and enhance its long-term economic health.

In order to determine an appropriate set of savings targets, the study committee shall develop a set of options that depend on the level of budgetary risk that poses a threat to Nebraska's fiscal health and which shall include the following:

- (1) A calculation of the cyclical trend for each revenue stream;
- (2) A calculation of the annual deviations from trend or "time-varying" cyclical volatility;
- (3) A calculation of conditional correlations between revenue streams;
- (4) A calculation of the time-varying standard deviation for all tax streams; and
- (5) An identification of the optimal size of a savings target for the Cash Reserve Fund.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE ONE HUNDRED FIFTH LEGISLATURE OF NEBRASKA, FIRST SESSION:

1. That the Appropriations Committee of the Legislature shall be designated to conduct an interim study to carry out the purposes of this resolution.

2. That the committee shall, upon the conclusion of its study, and no later than December 31, 2017, make a report of its findings, together with its recommendations, to the Legislative Council or Legislature.