Planning Committee December 8, 2018 Room 1003

SCHUMACHER: [00:00:13] OK. We'll-- we'll convene the-- the Planning Committee at this time. I'd ask for a motion initially--I'm getting better at this--to approve the transcript as the minutes of the last meeting. I have a second?

STINNER: [00:00:27] Second.

SCHUMACHER: [00:00:31] All approve? OK. We want to welcome Senator Linehan to our-- our conclave here. I-- did you get my email?

LINEHAN: [00:00:42] I did, thank you.

SCHUMACHER: [00:00:42] OK. I tried to explain a little bit of an overview of the-- of the committee. For her benefit and for the benefit of any new folks in the audience, the Legislature's Planning Committee has five things that the statute says that it should do: collect and analyze data about Nebraska, including demographics, work force, education, wages, wealth, tax structure, revenue, natural resources, assets, challenges, trends, and growth and efficiency of government--in other words, about everything under the sun; identify long-term issues of significance to the state; set goals and benchmarks; issue a report of its findings each year; and propose legislation. Planning is a process by which under the objectives of the committee try to look beyond the immediacy of putting the fires out, which we do in the Legislature every time we convene and which is primarily the responsibility of the standing committees. Our job is to look beyond the fires to see what we can do and can expect in the-- in the future down the road a few years. We look basically at three perspectives, at least I have. Some people may do it differently. You look at what I call systems analysis: What do we have to work with? What's- what's actually happening? What-- what-- if you think of it in terms of a car, how big a car it is, how much-- big of an engine it has, how much cubic feet of space, what is the air pressure on the tires, how much gas is in the tank. Next part is projectional analysis: If we continue on this present course, if things are stable, where are we likely to end up at some point in the future? That's analogous to a hurricane projection. The closer you get to the future, the better off you are in your projections. But you have a general idea, even quite a ways out in time, where the hurricane is probably going to land. And thus we've got a general idea of where we're headed and we're probably going to end even though we're not sure. And the third thing is a-- is a projectoral analysis in which we basically look out there and say, OK, is there anything within our means that we can do to change the outcome of where we're headed if we don't like where we're headed? You see an asteroid way out beyond Pluto in the Oort cloud and the asteroid, it looks like it's on a trajectory to smack us as it comes in from the-- and accelerates toward the sun and we don't like that outcome and is there anything we can do? Well, if you do it far enough in advance, a little nudge on that asteroid can set-- make a big difference when it gets down in our vicinity. So are there things that we can do to avert things that we see in our future that are within our-- our powers and our economic capabilities? One of the-- so far this year we've tried to review some of the material that's been prepared by the University of Nebraska at Omaha public policy people as to the obligations to try to analyze Nebraska and there's been quite a bit of focus on demographics. We're going to be-- change demographics particularly with our older population and our newer, more non-white, immigrant-type population and-- and a lot of other factors that are demographically determined. We've also tried to do something that has not been done by the Planning Committee thus far. And that is to build a relationship with the Legislative Fiscal Office to try to see how the numbers work out. And if we can look at our numbers down the road and how actions that the Legislature might take with refer to our expenses, with respect to our income, might impact our long-term capacity in order to respond financially. So far one of the-- the little highlights has been that maybe the strongest immunization against financial uncertainty is a strong reserve. But a tool has been developed. We saw the first version of the tool a few months ago and it is a work in progress. We now have more work and more progress on the tool and to that extent we've asked the Fiscal Office to show up today and to show us the work in progress.

MIKE CALVERT: [00:05:26] It's been an iterative process, most certainly has. Thank you for the opportunity. Tom Bergquist is here with me. Tom has done the work with respect to the spreadsheets that we're going to walk through. We're not going to drag you through every single one. I'm going to hit certain highlights and then go to some questions. But hopefully I think we can demonstrate some meaningful progress and actually am getting pretty close to a fairly realistic and plausible assessment over an extended time horizon. One of the things I want you to keep in mind is, is the baseline where we start with is the five-year financial status that we routinely build every two years. That has been something in our experience over the last-- oh, gosh, we've been probably doing this close to 30 years now, ever since we got into biennial budgets of doing a multiyear financial plan. You always have a current year plus two years' worth of actual budget. So I mean you've got some very definitive knowns and we have run simulations for the following two years and built that into the financial status that's part of the Tax Rate Review Committee report, it's part of the routine work that the Appropriations Committee does, it lays the framework for the decisions they have to make, be made during the legislative session, and ultimately it shows up on-- on the green sheet as part of the regular legislative process once the budget bills hit the floor. Keep that in mind. That is the baseline and in that time horizon, as you pointed out, Senator, as you march through time, those nearer-term events become more and more definitive, more and more predictable, more and more plausible. But where you run into problems is as you start extending out into the future, things get increasingly complex and what we've attempted to do is build off of that base and build a plausible scenario out into the future and try to anticipate some events that might be fairly significant. I'll start with-- well, basically what you see on the screen is the basic spreadsheet set and there are a series of tabs. And the only reason I point that out is that there is a fair amount of complexity. We started out with a simple summary. I'm going to touch on that just as a refresher. We've made improvements the summary detail will reflect. I think a meaningful addition is this financial status so it becomes-- we've converted everything into a framework that you're going to be familiar with. You'll look at it and you'll say, OK, fine, I've seen that on the green sheet, I've seen that in-- in the budget report and so on so forth, where we've rolled everything out into the future. There are other analytical tools that basically the information flows into the model, if you will, based on estimates with respect to revenues, appropriations, and there's other major cost centers that are built in here for purposes of helping build this scenario. The first tab is summary simple and this is where we started from and we started from the current fiscal year six-- or the fiscal year we just completed, '16-17, then the additional years of our financial status. So that's been our green sheet; that's been our Tax Rate Review Committee report. So this is the time period which we have been working within pretty consistently since the-- the-- the 2017-- 20-- 2017 Session in terms of a budget scenario, if you will. So all of the numbers here are actual net receipts. The $4.505 billion in '17-18 is the actual Forecast Board estimate for the current fiscal, $4.675 billion for the next. We run a simulation in terms of growth rate patterns for the next two years. They're embodied in the financial status. We've been-- we've got transfers that are known. We've got a Cash Reserve transfer in two years that we already know about. So those are built in. We know what our General Fund appropriations are here. We run estimates into the future. We base it on a series of what-ifs in terms of expenditures. So now you come up with an ending balance based on that revenue growth pattern. The model then we just simply built on top of that. And the problem with this particular model is it's strictly linear. Off of the five-year status we have an input going into the future of General Fund revenue growth of roughly about 4.5, 4.6 percent year over year. And the rationale for that is that basically is the average for the five-year period we're in right now. OK? So we just said, OK, fine, extend that out into the future. We grew transfers out by a minor, small amount consistent with the estimated increases in appropriations, again based on the status and the averages that we're working with, and extended that into the future. The emphasis here, it's probably not a realistic assessment, is very linear. It says it's going to year over year-- revenues are going to grow year over year, expenditures are going to grow, and then the mismatch basically ends up in a General Fund balance that is substantially higher than one would realistically expect in 2038-2039. OK. So first question is, how do we correct for that? The second iteration that we went into, Tom built a series of adjustments and the highlights don't show up very well but basically that page that I just went through on a linear basis we said, OK, fine, let's start--

TOM BERGQUIST: [00:11:07] Could you make that a little bigger.

MIKE CALVERT: [00:11:07] Can't see it? [LAUGH]

LINEHAN: [00:11:07] I can't see it either.

MIKE CALVERT: [00:11:11] My eyesight is just-- yeah, I-- I appreciate it. Thank you. What we-- what was built in was essentially taking the same scenario, the very linear scenario, and said, OK, and you can't see the highlights very well but the highlighted areas, those are variables. You can enter in a different variable. For example, we took revenue growth that was averaging about-- just about 4.6 percent on a year-over-year basis. But we broke it down. Sales tax, about 4 percent is the baseline; year over year growth in individual, 5 percent; corporate year over year for miscellaneous one, 4.57. But this area here are highlighted. So now we can build a scenario that says, OK, what if revenue growth is something more or less? We can do it by individual tax types.

TOM BERGQUIST: [00:12:04] Just one thing I wanted to add. If you'll notice on the baseline one, it says 4.57, but you also see a 3.94. The 3.94 is the average growth over the 20-some year scenario. What tends to happen is, like Mike will get into later on, where there is a cycle which is years of above average and years of below average. The cycle dropped off the last two years of an above-average cycle. That's why that number is lower, because that's the average over the time period. So if you're wondering why does one show 4.57 but the other one shows a little under 4, it's because--

MIKE CALVERT: [00:12:41] Yeah.

TOM BERGQUIST: [00:12:41] -- where the status chops off in the cycle.

MIKE CALVERT: [00:12:43] And that's something we've always dealt with for the last 30 years. As you move through time, depending on where you are in the cycle, that average can vary a little bit up and down. If you're on the down side of the cycle, that average tends to drift down a little bit. If you're on the upside of the cycle, it tends to drift up a little bit. We've historically used a benchmark in, well, in recent years about 4.5 to 4.6 percent, prior years it was around 5, so there's been kind of a gradualized drift down. We've made adjustments for that as we go through time. So first thing, built in some-- the variability with respect to revenue growth. So now we can start modeling into the future. Let's say revenue growth is more or less and you can just pick individual tax types because, depending upon the growth rate and the particular tax type, you know, 5 percent individual income tax growth is more meaningful in terms of long-term consequence than it would be on corporate because corporate is a smaller part of the base. So if your larger tax types exhibit a higher rate of growth, your average tends to move up over time. We've done the same sort of thing with respect to transfers. What's built into the baseline in this column, that's white-- in the-- towards the middle, that's our baseline. But again, that one is-- is highlighted so, I mean, we could conceivably enter into a change in terms of growth on transfers and go to zero for that matter. Special education growth rate, aid to ESUs, these are our major cost centers and it's the majority, but not necessarily all, of what we use in our financial status when we go into the two years beyond the current budget period. We itemize assumptions with respect to different growth rates, aid to ESUs, homestead exemption, and there's a rationale that's built into our Tax Rate Review

Committee report and the other reports that we do that are descriptive as to the historical patterns or may-- there maybe is a statutory specification somewhere that tells us what that growth might be. But again, these can now become variables. You'll notice that aid to-- aid to K-12 and aid to Medicaid, excuse me, those are not highlighted. We don't enter in any changes at this point. Down below, Tom has expanded the definition of TEEOSA. Rather than a bottom-line growth rate, he made changes with respect to school disbursements and property valuations, which are key drivers with respect to TEEOSA growth year over year. So rather than just going to a bottom line percentage on TEEOSA, just aggregated that a little bit and you can break it down a little bit more finitely in terms of what you're going to assume with respect to disbursements and valuations. Similarly, on Medicaid, the General Fund amount is driven by, in part, changes to the availability of cash funds, federal funds, the overall growth of 4.5 percent. One of the concerns that emerged from this process and caused us to think about was some federal changes potentially that had been discussed with regard to the Medicaid program, and actually Tom and I talked about this 20-some years ago, about Medicaid eventually perhaps migrating towards a block grant. Well, that has started to come forward in terms of the process in-- in Congress and in the administration. And this now allows us, to the extent you can develop information in the future as to what may or may not occur, you can start modeling that in and assume that, for example, if the federal share drops to, instead of 4.5 percent and it doesn't match the overall growth of 4.5, if the federal actually declines and is capped, for example, at 2.5 percent, what does that do to the state share? It will probably-- it'll drive the state share up if your aggregate cost doesn't change. OK? So that is built into this system to be able to start modeling some of the nuances with respect to Medicaid [INAUDIBLE]

WATERMEIER: [00:17:11] Mike, I think I have a question, if you don't mind--

MIKE CALVERT: [00:17:11] Yes.

WATERMEIER: [00:17:11] --before I forget it.

MIKE CALVERT: [00:17:11] Yes, please do.

WATERMEIER: [00:17:11] On the TEEOSA--

MIKE CALVERT: [00:17:11] Yes.

WATERMEIER: [00:17:11] --you've got that estimate there, the 3.5 percent on the property valuations as assessed. You're just using that in the model in the fact that it changes the resources available to the schools so then it changes the need of the TEEOSA [INAUDIBLE]?

TOM BERGQUIST: [00:17:27] No, where that comes into play is, if you remember, on TEEOSA it's needs minus resources--

WATERMEIER: [00:17:33] Yes. Yes.

TOM BERGQUIST: [00:17:33] -- is the amount of state aid. What I'm basically showing there is the 4 percent is what affects the need side of the formula.

WATERMEIER: [00:17:40] Right.

TOM BERGQUIST: [00:17:40] The 3.5 percent is what affects the resources--

WATERMEIER: [00:17:43] Resources side.

TOM BERGQUIST: [00:17:44] -- which is the yield from local effort rate, is the single largest one. Now the difficult part is I'm showing 3.5 percent there and we've had a lot of years, especially lately, where valuation growth has been 8 percent triggered by ag land. The actual growth and the value that you can actually use in the formula has only been 3 to 4. Because so much of that growth was occurring in nonequalized school districts, it didn't have an impact.

WATERMEIER: [00:18:13] That's what I was getting at but--

TOM BERGQUIST: [00:18:13] And that's the other tricky part. It's going to start working in reverse. We start--going to see lower valuation growths and you're thinking you're going to save TEEOSA money and you don't because it's just-- you know, I just end up spending some time yesterday of-- you know, we were-- we were calculating on nonequalized districts how nonequalized are there and basically ag land could drop 40 percent before an awful lot of schools would even come close to being equalized so--

WATERMEIER: [00:18:39] And that would trigger the TEEOSA change [INAUDIBLE]

TOM BERGQUIST: [00:18:40] Exactly. So that's why I separated those two.

WATERMEIER: [00:18:43] OK.

TOM BERGQUIST: [00:18:43] That reflects both sides of the formula, yeah.

WATERMEIER: [00:18:45] OK. And then that kind of comes back to the fact like, Mike, you had mentioned earlier. When you hit the cycle, when you put it in there, a lot of that has to do with that too. So, OK.

MIKE CALVERT: [00:18:52] Absolutely.

WATERMEIER: [00:18:52] Thank you.

MIKE CALVERT: [00:18:52] Absolutely. OK, so that was this-- the next iteration was-- was building-- building in some ability to vary assumptions as to specific data points, specific expenditure items, specific revenue items.

SCHEER: [00:19:12] Mike, can you shrink it just a little bit so we can see your notes, just so I can read your notes. It's--

MIKE CALVERT: [00:19:16] I-- I can scroll over.

SCHEER: [00:19:18] Yeah. Thanks.

MIKE CALVERT: [00:19:18] Sure. What's going to happen, and this, this sheet is now including some changes with respect to revenue growth, that is the next iteration. In a nutshell, if you look at past history there are-- there is a clear, in our estimation, cyclical pattern with respect to revenue growth that is either above or below average and those-- that tends to cluster. We are in the second, third consecutive year-- well, we had two consecutive years where revenue growth was below 1 percent. OK. We've got a somewhat moderately higher revenue growth estimate in the current year. But if you look at past history and review the cyclical patterns, there is a consistent, fairly consistent clustering of those years where revenue growth is above average using roughly a 4.5 to 5 percent benchmark. And there are a certain number of years where they cluster and they're below average. One of the things that we wanted to do is build in that cycle for purposes of-- of the future projection, OK, because despite what we did with respect to being able to manipulate expenditures and revenues on this, on the first iteration, that's still linear. We're just changing, we're just changing the slope of the line a little bit and continuing it on into the future. A more realistic pattern recognizes some of those cycles but you also have to be able to adjust it on the fly as you go as to, well, this particular year maybe cyclically we thought was going to be a down year, maybe it's not, so then you make the adjustment through your financial status and you make the adjustment in future years. This is kind of the guideline here that-- that we're using and I'll start with sales, the cyclical growth pattern. If you look at the historical pattern of rate base adjusted that where we have had growth above average in sales it's been 5.5 percent and it-- this is the average of the high years and the average of the low years. One and a half percent below average, the blended average is 4.2. We come down to a blended average of all four of the tax categories of 4.5. So what we did and we talked about was we started building in a cyclical pattern that recognizes the above-average and below-average values that we have for the respective tax types. So the status, and I'm going to walk through, builds in years, and they'll be identified and you'll be able see those, where above-average growth, General Fund revenues will be at about 6.2 percent; on average, below, about 0.9 of a percent. And here's kind of the spread, sales, above-average years, plus one and-- we make adjustments to a base year and we'll say sales on the-- on the above-average years is going to vary at 1.5 percent above the average, above the norm, the central tendency. Below average, we're going to knock 2.5 percent off the growth rate. Similarly, we adjust 2 percent off of your central tendency on individual income by 2 percent. You knock off 4 in terms of those low-growth years. One of the things I really like about what has been done then is now if you go to the financial status, you'll start seeing-- let's see, it should be in here. Is it on here, the above- and below-average designation?

TOM BERGQUIST: [00:23:13] That's on the revenue page.

MIKE CALVERT: [00:23:13] That's on the revenue page. OK. I'll go there. All right. Go to our revenue page now, 2016-2017 is a below-average. That's actual. And again, these are the first years here. Here are actuals in terms of Forecast Board estimates and actual appropriations but we're talking about revenues here. The following biennium are their-- our financial status. And now we're getting into the projected horizon, the 10 years or the 20 years beyond. And you'll see we designate 2021-22 as below because in terms of the cyclical pattern we generally see about three years consecutively at or above average revenue growth followed by a year or two, and we're using two years, in terms of below average. So now we've forced a cycle and the cycle is consistent with that little summary I went through somewhere.

TOM BERGQUIST: [00:24:19] Revenue is higher up.

MIKE CALVERT: [00:24:21] Higher up, OK. OK. It's consistent with this revenue pattern, so your above-average years, 6.2, your below average about 1 percent. So that has all been converted on the revenue table. So now we have built in a baseline cycle. And, Senator, I think this is kind of where we start in terms of the-- the future analysis. We set a baseline with a certain set of parameters and now we start varying it. The first variable you're going to have to keep in mind is that, again, those future years, starting in 2021-2022, are built off of the five-- five-year financial status that we've got right now. And I'll tell you right now it's going to change by the end of this next session. What we'll do then is we'll build in that change and that will affect this financial status going into the future, OK,--

TOM BERGQUIST: [00:25:19] In the-- in--

MIKE CALVERT: [00:25:19] -- which builds in that revenue cycle.

TOM BERGQUIST: [00:25:21] In the simplified, if I was going to chart it, the first one that we showed you was basically 4.5 to 4.6, just straight line as it would slope up. This one basically follows the same thing eventually but goes like this. It wraps around it. It has three years of above average, two years below, three above, two below. So just-- just keep in your mind you actually end up to some extent in roughly the same place. Now it depends on whether it's exactly the same cycle or not, but think of it in terms of this one just wraps right around it because that's what we experience, it wraps around that average like a snake.

MIKE CALVERT: [00:25:59] And there's two things that-- that I always keep in mind in this kind of an exercise in terms of actual results in past years. Number one, it does-- it does tend to converge to an average. Your highs and your lows tend to converge to a fairly consistent average. Again, when we first-- when I first started it was around 5 percent. It's drifted down a little bit. But the other thing is, is that, and this is kind of getting into the forecasting side of things, you know, you can raise the obvious concern that these are going to-- all of these are going to be wrong. I mean it's going to act-- the actual events are going to be different. But the fact of the matter is when it comes to revenue forecasting in the-- in the five-year time period that we do and we look at the past history in terms of revenue errors in the forecast, they tend to wash out to zero. And this is for over 30 years. The error, positives and negatives, have literally washed out. Now you get a little variability depending on where you are in the cycle but what that tells me is that averages can be useful in this exercise. Averages can be useful. Are they going to be absolutely correct? No. Is timing going to matter? Yes. And that's why you redo these sorts of things more than once a year. You do it two, three, four times a year and you go through this exercise and re-evaluate and re-evaluate and see how you're changing.

SCHUMACHER: [00:27:32] John.

STINNER: [00:27:33] Have you built into your model the excess going into the Cash Reserve?

MIKE CALVERT: [00:27:38] That's the next step.

STINNER: [00:27:40] OK.

MIKE CALVERT: [00:27:40] I think the next step that we have to do, and here's-- and here's what I'm going to point out. This number right here that I just highlighted, $173 million, that's right off of our financial status right now. Tax Rate Review Committee says going in through this biennium that's where we're short. This next number is the projection in our financial status that says if these events happen you're going to be $130 million short. This number will change by the end of the session.

_______________: [00:28:10] Right.

MIKE CALVERT: [00:28:10] If that number changes based on revenue and expenditure actions, it's going to change that number, change that number, change that number, and change that number going into the future. OK? And you raise a good point, Senator. One of the things that we don't quite have yet built in are those longer-term corrective actions. The shorter term we can do because the Legislature ultimately will deal with those things. You will take action to bring things close to closer balance. It becomes somewhat speculative what you're going to do out there. But if that's-- comes to pass, you're going to do something and then we can start making some judgments. I think the key here is, as much as anything, is the order of magnitude. You make a correction here, you get things back into balance, but these numbers are getting a little bit bigger and the problem is those are relatively low-growth revenue years according to the cycle. So that in itself is informative in that if this cycle comes to pass, you're going to be working towards solving the problem in the near term but you may not be able to solve the problem longer term if those growth rates are weak.

TOM BERGQUIST: [00:29:35] The-- one of the tricky parts in the whole thing if-- if you look at the earlier one where it shows after 20 years you have $10 billion as your General Fund ending balance. But that's really the difference between a 4.5 percent growth per year and a 4 percent spending growth. That's a half a percent a year. At the end of 20 years my structural balance is 10 percent of my current revenue. By the time I get out there, it's $10 billion of revenue so I have a billion-dollar annual structural balance. It also works the other way. If it was 4 percent on revenue and 4.5 percent on the spending side, I've got a $10 billion shortfall and an annual structural imbalance of $1 billion. I'm just-- the only reason I wanted to mention that, it can make it look really, really, really good or it can make it look really, really bad just with a very strong difference. The other thing it doesn't have is at any point in time we're basically taking the baseline and just growing at a certain rate. If I come in and three years from now do a $50 million revenue reduction, every single year the growth rate isn't going to change, but every single year a number is going to go down by $50 million. So over a 20-year period I could subtract $200-300 million off the top of that ending, I mean, so it doesn't show. Those kind of things are hard.

MIKE CALVERT: [00:31:02] Yeah.

TOM BERGQUIST: [00:31:02] They're hard to build in, those one-time items--

MIKE CALVERT: [00:31:04] Yeah [INAUDIBLE]

TOM BERGQUIST: [00:31:05] -- which is probably one of the reasons why we don't have a billion-dollar surplus right now of-- going backwards.

MIKE CALVERT: [00:31:10] Sure.

TOM BERGQUIST: [00:31:10] We intermediately every year did different things and changed things.

SCHUMACHER: [00:31:15] Am I correct in interpreting this that this is a tool and lots of assumptions in the tool--

MIKE CALVERT: [00:31:22] Absolutely.

SCHUMACHER: [00:31:24] -- and that as we get closer to the future and can kind of define where we're at better, we-- we get a clearer view of what's about to happen. And we can also say to ourselves, look, if the economy doesn't respond to the-- to the federal tax cuts as-- as much as somebody might project, this will be the reaction; if it overperforms, this will be the reaction; if we have this change in federal welfare policy, this is how it-- you know, we can anticipate it. If we pass this bill that does thus and so and then amounts to money, this is how this is going to affect it and change it.

MIKE CALVERT: [00:32:10] Yeah.

SCHUMACHER: [00:32:10] I mean so basically what we're doing is we're not necessarily predicting the future here but we're developing the tool that we can try to-- to resolve the future.

MIKE CALVERT: [00:32:18] It's a risk-reward assessment, the way I look at it. One of the things, too, on the-- on the revenue side, you know, we've got a built-in cycle here of below, below, then three above average. We can go in and we can make changes. I mean it starts getting messy but we can go in and specify above-average or below-average years as we march through time, if the cycle changes, and we can change that simulation. We have to just be careful in that you can make a change in any one year. You have to evaluate all future years as to how that cycle plays out. I mean you've got to do this kind of in a stepwise progression. But that flexibility is there on, most certainly, on the revenue side. I think the other value is, is it does a couple more things. Sometimes timing is everything. And as you-- as you move through time and you gain some-- some insights, timing with respect to whether this is going to hit before a regular-- a full budget session or if it's going to hit in the middle, you know, in an off session, kind of gives you some hints as to the order of magnitude and what you're dealing with and-- and what you're going to have, what tools you're going to have available to deal with so. And the other thing is, is, and this kind of occurred, the whole Medicaid issue has been very bothersome over the years as to what could or could not happen. And my sense has been it's always been something of a downstream event. Well, if you're talking about something four, five years into the future, or six years or beyond, you might want to, if you can simulate that and start building in some kind of a model, you got a better sense as to you-- you might have the convergence of weak revenue growth at the same time you're trying to deal with a Medicaid reduction and all of a sudden the order of magnitude of a problem that you might be facing in future years escalates. And it could go the other way. I mean you could have a situation where revenue growth is very, very positive and you're having some expenditure issues that are going away.

SCHUMACHER: [00:34:24] Now-- now is-- does this have the capacity, let's-- or has it-- or have we progressed that far in the the development of this thing, say, OK, let's look at our old-age home expenses. We know here comes the baby boomers. We know this surge is there. And can you then overlay that kind of numbers into this?

MIKE CALVERT: [00:34:44] You're going to have to start exercising judgment on cost centers as to those kinds of events. If you have some kind of independent research that you can fold in, yeah, you can start-- I mean, depends on how you have the cost centers structured, if it's a cost issue, but a global application probably not.

SCHUMACHER: [00:35:06] But--

TOM BERGQUIST: [00:35:06] If-- if I was going to try to do that, under the Medicaid there's two different assumptions. The-- the overall 4.5 percent is basically 2 percent on eligibility and utilization and 2.5 percent on rates. If I was going to modify that to try to reflect that maybe the eligibility and utilization, instead of 2 percent a year, maybe it's 3 percent a year.

MIKE CALVERT: [00:35:31] Yeah. You'd have-- you'd have to make a judgment as to how, how you would adjust whatever inputs you have available to try and reflect that event.

TOM BERGQUIST: [00:35:38] You'd have to blend it in because when you get into Medicaid eligibilities, what you're talking about is a much smaller number of people. So in terms of number of eligibles, the-- the nursing home eligibility is much less than a lot of the other categories but the cost is a whole lot higher.

SCHUMACHER: [00:35:56] So--

TOM BERGQUIST: [00:35:56] So it might be 20 percent of the total eligibilities, but their-- their monthly, their average annual cost is five times what it is for a child when they have ADC-eligible parent that has a child on there.

MIKE CALVERT: [00:36:08] And I want to go back to Senator Stinner's question-- question just for a moment. I-- I do think that that's probably one of the next things that we really need to think about is with respect to as you look at the bottom line and where you are on the financial status, does that imply you're in savings mode or does that imply that you're in a-- in a mode where you're drawing down on the Cash Reserve Fund? If you're running balances that are above the minimum, you're probably in a savings mode and you need to make an adjustment in this sheet that says a certain amount of that's going to flow to the Cash Reserve Fund. And it, again, it depends policywise where you are with respect to the balance and where you think you're going to be to the balance. OK? So now you start modeling that sort of thing in, now that starts changing your baseline going forward into the future. Similarly, if you start running some negatives in terms of relative to your ending-- your ending balance and your reserve requirement, that says you're starting to draw down your Cash Reserve. Well, what do your projections look like in terms of your Cash Reserve Fund balance? It may or may not be adequate to sustain that. So now do you start making some judgments and some choices that try to anticipate where you're going to be, where you think you're going to be, you know, five, six years from now?

TOM BERGQUIST: [00:37:26] One- one of the difficulties I would-- when I was trying to draft, write this up, I was trying to work on that, how much do I have to go into the Cash Reserve Fund or pull it out. The problem is what goes into the Cash Reserve Fund is anything that we're above forecast. Now when I'm modeling this thing I'm trying-- I'm pretty much assuming that I'm going to be 100 percent accurate every year on the forecast. So-- so I really don't have a basis--

MIKE CALVERT: [00:37:51] Yeah.

TOM BERGQUIST: [00:37:51] --- in saying how much goes into the Cash Reserve Fund or when and how much I pull it back. That's why the General Fund balance shows it has accumulated all the way up to $10 billion, because technically under the current law that's what would happen.

SCHUMACHER: [00:38:05] But this type of tool, whether it's in a committee looking at a policy change or whether it's on the floor evaluating two different proposals that might have different consequences, that's what-- at least we can shine a flashlight into the darkness and say we think we see this out there.

MIKE CALVERT: [00:38:23] Well, you're-- you're-- it's-- it's pretty-- it's going to be pretty speculative because keep in mind this is a tool that's trying to look ahead ten years into the future. Now some large events in terms of convergence and whatnot? Sure.

_______________: [00:38:39] Well, if--

STINNER: [00:38:39] If we-- if we're on a three and a two cycle, three being above, two being below, you've got three years in which to build that Cash Reserve to whatever you've determined. Sixteen percent is what we're using. So if we deplete this down to let's just say $300 million, over the next three years of the up cycle we have to build that back up to $800-900 million. And should that be part of the budgeting process even though we may not have those forecasting errors to do that? That's a little bit of how I look at this modeling. It certainly reflects those business cycles and what-- what we do expensewise during those up years is going to carry over into the down years and then we'll have to make adjustments accordingly which makes long-term decision making and long-term impacts less and less predictable. In other words, you're always going to be "whipsawing" your agencies up and down without that Cash Reserve being replenished.

SCHUMACHER: [00:39:50] So we're back to the-- some of the discussion we had a few meetings ago that the Cash Reserve is a-- a good shock absorber.

STINNER: [00:39:58] It is a shock absorber, no question about it.

TOM BERGQUIST: [00:40:02] Senator, one thing I want to point out in one of the-- as we've been going through the discussion and I've been listening to you, there's even more changes that I would like to make on this one. Understand what this thing is doing now, it's-- it's basically you can alter the trend line. All I can do on this sheet right now is-- is alter the-- the slope. When I get into Medicaid and it's 4.5 percent, I can-- I can alter the slope. What it doesn't alter is the level. What you're talking about is-- I mean I was sitting there thinking about the Medicaid match rate. If the Medicaid match rate drops in this thing and I take the Medicaid, the federal funds, to 2.5 percent cap and I grow the rate to get us 4.5 percent, part of the deal is let's say we have the option and we eliminate optional services. This doesn't-- this-- way-- way I have this set up, it doesn't say I can take my current level of Medicaid and drop it $10 million and then grow it at 4.5 percent. So it changes the slope of the line, if that makes any sense; it doesn't alter-- and the reason I started thinking about it is that one sheet that says here is the cumulative impact of all the tax stuff over the last 15 years, you know, is, what, $770 million. None of those altered the slope of the line to a great extent. They altered where the line was and what I probably would need to do is add something in here that says, what if I took $20 million out of the baseline of Medicaid and then applied a 4.5 percent growth? So I don't know if that makes any sense. But that's one of the-- one of the issues on this thing is it doesn't allow or it's not set up to go into a certain year and say what if we added or subtracted something off the baseline. We could alter the slope of the line over the long term but not--

SCHUMACHER: [00:41:54] That-- that's why we call this a work in progress?

MIKE CALVERT: [00:41:58] Oh, yeah. This is--

TOM BERGQUIST: [00:41:58] Yeah.

MIKE CALVERT: [00:41:58] This is ongoing, no question.

TOM BERGQUIST: [00:41:58] But every time I sit in here, I end up finding out I have to add more things [INAUDIBLE]

STINNER: [00:42:03] The other thing that this tells you is everything-- if, if our average is 4.5 percent, any expenditure that's over 4.5 percent, any line item that's over 4.5 percent is not sustainable. That's the other thing that it tells you, that you have to at least be below the average; otherwise, it starts to crowd out your other expenses, so.

MIKE CALVERT: [00:42:26] Well, I'm going to go out on a limb here. I'm going to refine that one a little bit. Four-and-a-half percent is a benchmark for any additional obligations--

STINNER: [00:42:32] That's the other part.

MIKE CALVERT: [00:42:36] -- expenditures, transfers, tax actions. Anything that-- that takes resources out of the General Fund over and above that revenue growth is problematic.

STINNER: [00:42:48] Thank you for that. That's--

TOM BERGQUIST: [00:42:50] Actually I was sitting here thinking when I brought up that sheet, if I was was to [INAUDIBLE] that spreadsheet 15 years ago, it would have probably showed us as having a billion-dollar balance because none of those bills that we enacted would have in essence been in the trend line.

WATERMEIER: [00:43:05] You're right.

TOM BERGQUIST: [00:43:05] I should have not been able-- I-- so I-- I wouldn't have had the ability. If I did this 15 years ago, I would have made it look like everything's hunky-dory because none of those, that listing of bills would have been-- shown up because I hadn't enacted any of those, if that makes sense. That's why we don't have the $2 billion because each year we always reacted and did things to get to that point. Sorry.

MIKE CALVERT: [00:43:28] So obviously we feel we have some more things to do, continue working on that. I will readily admit when Senator Schumacher first approached me about this whole idea I was not real enthusiastic. But I have convinced myself and Tom's work has convinced me that this has some very good value, some real merit. And one of the things that you as a committee need to probably think about is to what extent you institutionalize this in terms of a permanent functional activity. One thing-- a couple things I'd suggest. I mentioned about the Tax Rate Review Committee there's a set milestone in July and November where the legislative leadership--the Speaker, the Appropriations and Revenue Chair, and the Exec Board Chair, along with the Tax Commissioner--evaluate our General Fund outlook. And what we do is we incorporate the most recent events in terms of revenue forecast, budget crisis, and so on. And I mention that because that's when the-- the status changes and since we're building a-- a scenario off of that status as it changes, you probably want to refresh this activity and get another look at it. Especially where some of those changes can be fairly significant, you have a baseline that lays out a certain scenario and now you get a change that may be fairly significant, let's say, on the revenue side, the expenditure side, whatever, that changes that future flow. You get an idea in terms of how that influences. So that's one suggestion. The other one is, is I think the way we've got this built, it probably goes 20 years past the five-year financial status. I think it would be realistic, you probably ought to shorten that up a little bit--that's a judgment call--maybe to ten years or so beyond the five.

And, you know, how you go about institutionalizing this, you could codify it. Does this committee have definition within statute? I don't recall.

SCHUMACHER: [00:45:43] Mike, does this committee have what?

MIKE CALVERT: [00:45:45] A statutory definition, is it-- is it created in law? I-- I just-- I never paid attention to that. So I mean that might be a place where you make some changes with respect to institutionalizing a process, or in rule or whatever. But I-- I really do think it has some, some merit.

SCHUMACHER: [00:46:01] What-- how would you suggest we the Legislature institutionalize it? I mean, so you think of-- of a statute, a-- I mean, how do we do such a thing?

MIKE CALVERT: [00:46:12] Well, yeah, I mean statutorily you can, and I'm just-- this is just kind of on the fly, you can define that in certain time periods, so coincident with the Tax Rate Review Committee, that the committee shall review a projection of X years into the future of a General Fund outlook prepared by the Fiscal Office, I mean, something along that line. I'm just kind of thinking out loud. I would hate to see this go by the wayside, be honest with you.

WATERMEIER: [00:46:49] I agree. I--

_______________: [00:46:49] [INAUDIBLE]

WATERMEIER: [00:46:50] Yeah, I appreciate your work on it. I appreciate your-- your changing your-- your tone, whether it looked like busy work and now it's valuable. So I think it's going to be valuable, too, so.

MIKE CALVERT: [00:46:59] I didn't see it as busy work. I wasn't really sure it was going to go anywhere.

TOM BERGQUIST: [00:47:02] One thing-- one thing I think is very important when I look at this, and I-- and just started thinking about it, I said, if I would have done this 20 years ago, if I'd have gone back 30 years ago and had the ability to do this, which we didn't because spreadsheets weren't even around then, I mean we were doing one-year financial status and I was calculating everything by hand, I think it would be something like I'm 100 years old but--

_______________: [00:47:25] Now aren't you?

TOM BERGQUIST: [00:47:25] -- but right now the long-term trend on the status right now shows basically 4.5 percent on revenue and 4 percent on spending. And that's where it's important. That's-- that's-- that reflects the long-term trend. Thirty years ago I did this, the revenue growth would have been closer to 5.5 and the spending growth probably would have been closer to 3 because TEEOSA, we didn't have TEEOSA and we pretty much decided how much we wanted to give to TEEOSA. Medicaid was about $15 million and nothing in our income tax structure was indexed whatsoever. So what I-- I guess maybe where I find it important is now we're looking at a half a percent gap going forward. Way back when, back in the day, we had a big gap.

WATERMEIER: [00:48:17] Two and a half.

TOM BERGQUIST: [00:48:17] That's when we had lots of room to do A bills and we could do all kinds of new programs and we could do lots of-- of wonderful things but that long-term trend is-- ooh, it's-- it's-- it shrunk a lot. That margin is not very big right now. So I-- I guess maybe that's where I find the importance is as much as looking backward almost as much as looking forward on that. [INAUDIBLE]

LINEHAN: [00:48:38] You say that again? Thirty years ago revenue growth was what and spending was what?

TOM BERGQUIST: [00:48:42] Well, 30 years ago we probably would have said the ongoing revenue growth was 5.5 percent on average.

MIKE CALVERT: [00:48:48] Yeah, on average, if you're [INAUDIBLE]

LINEHAN: [00:48:49] And spending was?

TOM BERGQUIST: [00:48:49] What's that?

LINEHAN: [00:48:49] And spending?

TOM BERGQUIST: [00:48:49] Spending probably would have been 3 to 3.5 because we were doing a small-- a smaller amount on school aid that basically in my trend line would have been flat. I would have had zero growth in a projected budget for state aid to education. And the amount budgeted in Medicaid would have been higher than the current 4.5. But it was such a small portion of the budget it wouldn't have hurt. You know, it'd have pinched a little bit but it was such a small portion of the amount and frankly, if you go back prior into the mid-'80s, right now we're on the hook for 50 percent of the nonfederal share. Back in those days we were on the hook for only 25 percent of the nonfederal share because counties--

MIKE CALVERT: [00:49:34] Counties.

TOM BERGQUIST: [00:49:34] --paid the other half.

STINNER: [00:49:35] Well, I think, too--

TOM BERGQUIST: [00:49:37] So [INAUDIBLE] counties would have to come up with $400 million a year if we had turned the statute back to what it was in '83.

STINNER: [00:49:42] As far as regular growth is concerned, though, you have to incorporate changes in law. I mean we've done $700 million worth of, over the last ten years, sales tax exemptions. Advantage Nebraska has grown substantially. Now we're at $120-125 million in refunds, direct refunds.

TOM BERGQUIST: [00:50:03] Right. The--

STINNER: [00:50:05] Those types of things have a fairly substantial impact on that.

TOM BERGQUIST: [00:50:09] The-- the key in-- in when we're starting to go in this though is there's two different things. Some things change the slope of the line; others change the level of the line.

STINNER: [00:50:19] Right.

TOM BERGQUIST: [00:50:19] When I talk about optional services, we could save money by eliminating Medicaid optional services. That's one of the difficulties when you get into the block grant and then, say, capping it at 2.5 percent growth. We might get a lot more flexibility, meaning I can eliminate a coverage. I could save $10 million by eliminating a coverage. That just changed the level of the line. If it doesn't change the slope of the line, I might start out at $10 million lower but that difference between, it's still going to grow at 4.5 percent after that, we used to say in the long run I'd rather have something that changes the slope of the line than something that changes the level of line because within [INAUDIBLE] it isn't going to take long at a 2.5 percent federal change and a 4.5 growth in spending to make up for that $10 million, let's say, of eliminating a coverage. That lower federal money on the big billion-dollar amount is going to eat-- I mean that's-- that's one of the issues when we get into something like that is, does it change the slope of the line? I mean to some extent TEEOSA was-- did both. When we did TEEOSA not only did that raise or lower the dollar level, it definitely altered and changed the slope of the line. And in the long run the slope of the line is probably bigger in terms of dollar amounts than the $300 million initially that TEEOSA went up.

SCHUMACHER: [00:51:46] Jim, you had something?

SCHEER: [00:51:49] Well, in the short time that I've been here, it has become more and more obvious that we have-- we start programs but because of how we gauge them with an A bill, if it's two years out, then it doesn't have an A bill. So we are sort of short-sighting ourselves from a range purpose that we institute or start programs or expand programs but we go that little distance out so it-- it makes the rest of the body feel as though it really isn't consequential but enough of them hitting at any given time makes it very consequential. So how do we-- how do we react to that?

MIKE CALVERT: [00:52:33] The guidance I have always given the analysts is that--and this goes back to some of your predecessors, they'd start out with a bill and have an impact that would show up on the financial status, and they'd change the date and it rolls back--is if there is a deferred impact that's identifiable, it should show up in the fiscal note, at least in the narrative.

WATERMEIER: [00:52:53] Right.

MIKE CALVERT: [00:52:54] And that, I mean, that's been done. OK. Now if, if it's reasonably identifiable, it also shows up in that-- the out years of the status. It's one of the reasons we went from a three-year financial status to a five-year financial status was to catch those last two plan years because of those deferrals that were consequential to the decisions that you people have to make on the floor of the Legislature. That is relevant.

TOM BERGQUIST: [00:53:22] We-- we have a--

MIKE CALVERT: [00:53:22] We try and do that.

TOM BERGQUIST: [00:53:25] Yeah. We Have a lot of instances where it won't need an A bill because it doesn't appropriate any money in the first two years.

MIKE CALVERT: [00:53:31] Right.

TOM BERGQUIST: [00:53:31] There will not be an A bill on it. But you go out to year four or five on the status and you will see the expenditure. Now--

MIKE CALVERT: [00:53:37] You will see the dollar amount in the status.

TOM BERGQUIST: [00:53:39] -- we try to remind them just because there's no A bill, and to some extent we will notify that you don't read it, even though there is no A bill, it does have a negative expenditure cost.

MIKE CALVERT: [00:53:50] Yeah, and to be--

TOM BERGQUIST: [00:53:50] And then we try to show those out there if we can.

MIKE CALVERT: [00:53:52] Yeah, and to be honest, you know, the problem with doing an A bill that goes beyond the two years of your budget cycle is meaningless. It's a meaningless piece, piece of paper in the sense that there's no valid appropriation. Constitution doesn't allow you to make an appropriation that far in advance. So it's something of a horns of a dilemma to be on, but we try and identify those, recognize those in the financial status even though there's not an A bill, because it's important, I agree with you.

TOM BERGQUIST: [00:54:14] Yeah.

MIKE CALVERT: [00:54:24] Any more questions?

SCHUMACHER: [00:54:26] This conclude the show-and-tell?

MIKE CALVERT: [00:54:27] This include-- concludes show-and-tell.

LINEHAN: [00:54:29] I-- I have one question.

MIKE CALVERT: [00:54:30] Sure.

LINEHAN: [00:54:31] And I don't know if I'll ask it correctly but on the $700 million in tax cuts or incentives, did-- so when you did this for the following year after the tax cuts, did you drop revenues or did you just assume, even though we had the tax cuts, revenues would still go up 4.5 percent or 5 percent?

TOM BERGQUIST: [00:54:49] The starting point is right here. This is our current-- this is our actual revenues. These are our current forecasts right now. So the-- all of these numbers already have those. Any tax legislation that had been enacted in the last 15-- well, since 1867, is in theory encompassed inside that revenue number.

STINNER: [00:55:18] Did-- they've been adjusted for the rate and base--

MIKE CALVERT: [00:55:24] Yes.

TOM BERGQUIST: [00:55:25] Right.

STINNER: [00:55:26] -- changes that were made. So--

TOM BERGQUIST: [00:55:26] Yeah.

MIKE CALVERT: [00:55:26] So anything-- this is how I would describe it.

LINEHAN: [00:55:29] OK.

MIKE CALVERT: [00:55:29] The revenues that you see up there--

LINEHAN: [00:55:32] Yes.

MIKE CALVERT: [00:55:32] -- are based on current law.

TOM BERGQUIST: [00:55:34] Yeah.

MIKE CALVERT: [00:55:34] So if there were tax actions in the-- in past years that affected those revenues, those impacts are built into the forecast.

LINEHAN: [00:55:41] So, OK--

TOM BERGQUIST: [00:55:43] In theory, in theory, if we hadn't passed any tax bill in the last 15 years, that number there would be $700 million higher.

LINEHAN: [00:55:52] OK, that's-- that's my-- in theory.

TOM BERGQUIST: [00:55:56] Yeah. Yeah, in-- well, it would have been because if we had-- if we took our tax base back to what it was 15 years ago, that number would have been significantly higher because every year--

LINEHAN: [00:56:04] Well, people will argue that point. You know that, that they will argue--

TOM BERGQUIST: [00:56:06] Sure.

MIKE CALVERT: [00:56:06] And we would argue contrary.

LINEHAN: [00:56:08] Right. OK. Just so we-- not everybody would agree with that, that just because you cut $700 million in taxes, your revenues went down $700 million. People will-- there's a counterargument to that.

TOM BERGQUIST: [00:56:19] Oh, yes, yeah [INAUDIBLE]

MIKE CALVERT: [00:56:21] But if we-- if we could roll back the clock and have the same identical tax system, I would guarantee you we're going to be a lot closer to that $700 million dollar higher figure--

LINEHAN: [00:56:29] OK.

MIKE CALVERT: [00:56:29] -- in my estimation.

LINEHAN: [00:56:33] OK. Thank you.

TOM BERGQUIST: [00:56:33] Yeah. Yeah. The question, the question, the real question is, like when you said, I cut taxes $700 million, that should have caused enough that economic growth would have been higher. So if we hadn't done it we wouldn't have this level of a forecast. I mean that's [INAUDIBLE]

LINEHAN: [00:56:49] Well, that's why I'm-- my confusion because I think I've heard you say that we-- every year we think it's going to go up 4.5 or 5 percent. But-- but the years we did tax cuts we didn't assume that then, right?

TOM BERGQUIST: [00:57:04] We-- we still have growth of 4.5 percent--

LINEHAN: [00:57:08] Even though we had tax cuts?

TOM BERGQUIST: [00:57:09] -- rate and base adjusted. The dollar amount then went down because we did a tax cut. The question is, so this is-- we try to adjust that out.

LINEHAN: [00:57:21] OK.

TOM BERGQUIST: [00:57:21] So we adjust out. I call-- we call that a manual thing.

LINEHAN: [00:57:27] OK.

TOM BERGQUIST: [00:57:27] If-- if I did a $100 million tax cut, that $100 million had nothing to do really with changing the growth in my revenue that year. It changed the-- the net percent change in my revenue that year. But it didn't change what the economy in essence generated that year.

MIKE CALVERT: [00:57:44] You know, the other thing you have to keep in mind about, about the forecasts, and I, I go back to my original statement, it's based off of current law. OK? When we do a forecast going forward, we make a forecast based off of all the past tax changes, positive, negative, whatever, and that's built into the forecast. OK? The other thing you have to keep in mind on building a forecast is it is a function of that structural change but it's also a function of actual receipts. OK.

LINEHAN: [00:58:12] Right.

MIKE CALVERT: [00:58:12] So it's-- it is a constant iterative process. So to some extent, some of the factors that are-- are harder to identify are built into the forecast just by the mere fact that actual receipts have changed year over year based on a-- an existing structure. OK.

STINNER: [00:58:34] It might be helpful for you to look at their actual work. They have actually had the work, work papers that actually take each one of these pieces of legislation and adjust down the revenue.

LINEHAN: [00:58:46] [INAUDIBLE]

TOM BERGQUIST: [00:58:47] Here, here is always the difficulty if--

STINNER: [00:58:48] That would be-- that would be helpful. You could see it.

LINEHAN: [00:58:50] I'm just having a disconnect between-- I-- well, I don't want to spend a lot of time on this. I'll look at it. Yeah.

TOM BERGQUIST: [00:58:57] OK. One-- one of the issues and when we started actually trying to calculate the rate and base adjusted, simplified, looks like current year is $100 revenue. Next year with no change in tax rates I would get $105. That's a 5 percent growth in revenues. That's what the economy was going at the existing rate. The Legislature came in and it lowered the sales tax rate so now I--by five dollars--so now I get $100 this year and I had $100 last year. OK. There's zero percent change in the amount of revenues that I have available to spend--

MIKE CALVERT: [00:59:33] Which is what you budget for.

TOM BERGQUIST: [00:59:34] -- which is what you budget for, but the-- you don't say that the economy was in a recession because we got zero percent revenue increase. So the problem is when you-- when you would look at a zero percent change in total revenues available, people would say, well, the economy is in bad shape and we have no growth. No, we have-- the economy generated a $5 increase. It-- the Legislature manually got rid of the $5 by lowering the tax rate. That's the difference between revenue growth that we have available to spend and revenue growth that inflation in the economy is generating and they're not the same thing and for a long time we got confused. I mean we had that-- we had quite a bit of time people would say we're in a big recession because there is zero revenue. It's like, no, we're-- we don't have any revenues because you reduced the sales tax rate. It isn't because the economy was bad. It was only-- so that's why we started trying to adjust those things because in those days, when we first started calculating, there's a reason why you start since 1982, because we kept trying to do that because the Board of Equalization was constantly raising and lowering the sales and income tax rates.

MIKE CALVERT: [01:00:50] And to simplify--

TOM BERGQUIST: [01:00:50] They would change it twice a year and it was hard to get any sort of an idea, you know, are we losing revenue because they lowered the rate or are we losing revenue because the economy is way down, so.

MIKE CALVERT: [01:01:01] And the whole business of adjusting to a rate-based adjusted has two contexts. One context is, is now you have, if you adjust for rate based, now you have a context for comparison to economic activity as we know right now. Does a 4 percent revenue growth make sense vis-a-vis what we know to be personal income growth and wage/salary growth and so on and so forth, number one. Number two, the second thing it does is when you do a five-year financial plan into the future, I go back to this statement: It's based off of current law. So essentially it is a rate-based constant into the future. So now when you do rate-based adjusted estimates for the past, you have a context for-- to evaluate your future for 5 years. Is it consistent, does it show the cycles, because I'll guarantee you, if you do nominal and you calculate those percentages, you won't see the cycles. The cycles are there on a rate-based adjusted basis and that is because going forward we don't make any assumption in terms of changes to law. It's up to you. Once you make the change, then we make the revisions. So that's why we do it that way.

SCHUMACHER: [01:02:12] Now am I right in thinking that from what we're-- we're learning or maybe coming close to learning, where-- that if we look at the-- the Advantage Act, and depending on who you listen to there's several hundred million, maybe a billion dollars of credits laying around, we, in the way that thing was designed, we have no control on when they're cashed in or how many can be cashed in, in a year. So we don't know if the number is going to be zero, we don't know if the number is going to be $300 million. And those kind of surprises, the only way we can insulate ourselves from them is with a big enough Cash Reserve. So if-- if, instead of nice, coming in so many, you know, hundred million a year or tens of millions a year on a nice level thing, we get popped and somebody cashes in or a group of people cash in a whole bunch, we need to have the shock absorber there.

MIKE CALVERT: [01:03:09] Yeah. There-- there have been-- there have been years on-- on-- and I'm just looking at the sales tax refunds. It swings $40-50 million in any one year. It has, doesn't always, it has a tendency to remain fairly constant and then, bang, all of a sudden you have a spike or you have a decline.

SCHUMACHER: [01:03:27] So--

MIKE CALVERT: [01:03:27] So on a year-- year-to-year basis it get-- becomes a-- it's a headache.

SCHUMACHER: [01:03:32] So part of the policy learnings might be that, should we design a future iteration of-- of an incentive program, we build in some controls so we don't get popped by surprises along the line and we confine it to--

STINNER: [01:03:50] I think you could do two things: cap it, put a cap on it, like you're talking about, but when you get an extraordinary amount of sales tax, say that somebody, big business comes in, buys a whole lot of stuff, pays the sales tax in and then of course then they have to apply for that refund, that little bulge could be reserved for future refunds. I mean we could have that discipline. That's how I would handle it if I was in business. But we just seem to say, well, wow, that sales tax went up a lot.

MIKE CALVERT: [01:04:25] And that is one of the things-- that's one of the things that we've been watching for.

TOM BERGQUIST: [01:04:29] Those-- those pops hurt more when you have below-average revenue performance.

STINNER: [01:04:33] Absolutely.

MIKE CALVERT: [01:04:33] Yeah.

TOM BERGQUIST: [01:04:33] If our revenues were $75 million above forecast after, even after a big pop, we don't notice those. So there's-- there's pops all over the place. It's just the ones that hit, like right now, are the ones that-- that hurt.

MIKE CALVERT: [01:04:49] And it's another example why I've persuaded myself that this is a valuable exercise because those sorts of things are going to happen and hopefully you build enough insight into the process to where maybe you can start identifying those potentials when they happen, positive and negative, both sides of the coin.

SCHUMACHER: [01:05:09] So that leads to the question of in order to continue the work in progress and build in extra features that might now say, OK, now if this is a trend or this is things that some other committee has decided is probably going to occur seven years out, let's-- let's overlay that and see what ripple effect that has, in order for you to continue to-- to-- to work on this, do you need anything more from the Legislature? Do you need additional staff? Do you need a bigger computer? Do you need--

MIKE CALVERT: [01:05:40] Not yet. No, sir.

TOM BERGQUIST: [01:05:40] One-- one thing, as I said [INAUDIBLE]

SCHUMACHER: [01:05:44] A bigger recliner.

MIKE CALVERT: [01:05:44] I appreciate-- -- yeah, good luck, yeah.

TOM BERGQUIST: [01:05:48] I mean the first time we were showing the trend lines. Then after listening to the meeting, the idea of running in the-- the cycles on the revenue side. Again, sitting here today, what I would probably try to do is in all of those categories where I show the-- the percentage change, what I would probably need is, for each of those 20 years, is a place to say plus or minus the base, because those percentages are applied to the prior year base. For example, what it would be is if I went five years from now and I said I'm going to cut $20 million out of Medicaid, I don't have a vehicle other than trying to alter the trend line. What I would try to work on is a way to incorporate so you could go into a certain year and the biggest one, obviously, would be starting right now and saying I'm going to add or subtract, I'm going to add $10 million to developmental disabilities, and then see how that-- that-- it's all-- I'm-- I'm talking about add-- changing something so I can change the overall level of something and then, and then after changing the overall level, then the percentage changes would apply to that altered base. That's-- that would be the way you'd have to do it I think to get--

MIKE CALVERT: [01:07:08] Yeah.

TOM BERGQUIST: [01:07:09] -- to a specific [INAUDIBLE]

MIKE CALVERT: [01:07:10] [INAUDIBLE] in all seriousness, no, I don't see any resource demands right now. I mean we've got basically I think a very good structure and it's really a matter of finding the time and the opportunity to do the refinements. OK? And I-- I can see that happening. There might be something in the future at some point in time. We've entered into-- we've had a contract with an economic modeling service for different purposes. It relates to program evaluation. It has not advanced to where I would like yet. That may demonstrate some value in the future but it might require some investment. But I'm not prepared to speak to anything like that at this point in time. And I'm not completely sold on it. I can see where that could possibly integrate into this function too.

STINNER: [01:08:05] I will say this. Just from the Appropriations Committee side, this would be very helpful for us and I'm sure Revenues probably feel about the same way.

SCHUMACHER: [01:08:16] All of our problems are going to be taken care of by Appropriations.

STINNER: [01:08:18] [LAUGH] Yes, we will.

SCHEER: [01:08:22] On this-- on this model where you were talking about raising whatever program by $10 or $20 million or whatever it is, can't you go back up in that department and raise the base then for the next year so that then when you do the 2.5 percent increase it's on the new level so you-- you can inject that additional dollar [INAUDIBLE]

TOM BERGQUIST: [01:08:45] Right, because what I was saying now is let's say-- I don't remember if Medicaid General Fund is $800 million. OK, at this point I'm basically taking that-- well, taking the total and growing it at 4.5 percent. So it's starting at the current level and it's taking that and raising it every year. What I was saying earlier is if I came in and said I'm going to make a major add or a cut, right now the only way I can try to do that is to alter that percent change. But I really don't want to alter the percentage change because I want to change this year, not all the years. So I would try to add something that says I'm going to take the current $800 million and reduce it by $20 million, let's say. Then those growth rates would be applied to that lower level base.

MIKE CALVERT: [01:09:30] Right.

TOM BERGQUIST: [01:09:31] And what would happen is then a-- in a-- let's say it's $10 million over a 20-year period. If nothing else, that $10 million reduction now has a $200 million impact on my projected ending balance way the heck out there.

SCHEER: [01:09:44] Because they're not getting the [INAUDIBLE]

TOM BERGQUIST: [01:09:45] And it's going to be even more than $200 (million) because I'm going to save 4.5 percent on that lower amount every single--

SCHEER: [01:09:52] Right.

TOM BERGQUIST: [01:09:52] -- year. So that's where-- that's what's kind of important is that, you know, I don't have a place to come in and manually raise or lower a certain area and then how that goes out.

______________: [01:10:03] Yeah. If--

MIKE CALVERT: [01:10:03] And I think one of the things, too, that we'd have to think about is sometimes those manual adjustments need to be phased. So you're talking about an adjustment in year one, year two, year three.

SCHEER: [01:10:14] So you'd have to go back out and change each one.

MIKE CALVERT: [01:10:15] Yeah, yeah. I mean that-- and to be honest, you're-- you're-- there's layers of complexity here that get to be difficult. And that's where we run into problems. Do I think it's doable? Yeah, I think probably it is and I think it's probably desirable. But you, you kind of put yourself into a situation that is second-guessing, you know, five, six, seven years from now what is going to be the legislative action.

TOM BERGQUIST: [01:10:36] It-- it would also allow not just on the spending side but I could go off--

MIKE CALVERT: [01:10:41] Absolutely, no question.

TOM BERGQUIST: [01:10:42] -- could just go out there on the revenue side and go to one of those categories and say let's-- for the sake of argument, if we cut one of those by X amount in different years, what it's not going to change is what Senator Linehan was talking about in that we have never-- we have not gone down the path, the dynamic forecasting that lowering the income tax or any sort of a tax is going to change the slope of that growth line.

MIKE CALVERT: [01:11:11] Well, and--

TOM BERGQUIST: [01:11:12] That gets awfully tricky.

MIKE CALVERT: [01:11:12] Although-- yeah. But I will say this. You have to understand that how our forecasts work, to some extent, the behavioral responses are built into the economic data that we use to run a forecast.

TOM BERGQUIST: [01:11:25] Yeah.

MIKE CALVERT: [01:11:25] So to some extent that sort of response is built in and that's one of the concerns I've got going forward particularly given the magnitude of the-- of the tax changes that are being considered at the federal level. There are, and we-- as we talked about, Senator, there are some direct connections in terms of what I would call statutory changes in terms of the federal tax code. They have direct hooks into our tax code. You make a change here, there's a direct connection to our-- what will happen to us on-- on the-- on tax code side. There is an impact. The other impact, however, is behavioral. What's going to be the response in terms of how I manage my tax liability over the years? So those behavioral aspects, the economic services have to-- have to identify and build into their estimates because it's going to affect personal income, it's going to affect wage/salaries, it's going to affect a variety of things that drive our revenue forecast.

TOM BERGQUIST: [01:12:27] I--

MIKE CALVERT: [01:12:27] And only time will tell how that all shakes out.

TOM BERGQUIST: [01:12:29] I-- I want to retract what I ended up saying is-- I shouldn't say that it's not incorporated in here because that 4.57 right there, which is the average revenue growth since 1981, that reflects all the tax actions we've taken since 1981. So all the-- where we've cut taxes, whether we raise taxes, technically all of that is part of that 4.7, how the economy reacted to those things--

MIKE CALVERT: [01:13:01] -- and all the behavioral responses.

TOM BERGQUIST: [01:13:02] And all the behavioral responses are actually inherent in the-- because that's, that's our actual experience during that entire time period. So whatever impacts there were on the economy due to those should already be incorporated into that 4.6 percent so I-- I'm done.

MIKE CALVERT: [01:13:22] We're done.

TOM BERGQUIST: [01:13:23] We're done.

SCHUMACHER: [01:13:23] Kaput? Fini?

MIKE CALVERT: [01:13:23] What's that?

SCHUMACHER: [01:13:24] Kaput? Fini?

MIKE CALVERT: [01:13:25] Kaput.

TOM BERGQUIST: [01:13:25] And as soon as I find $173 million I will start on adding-- [LAUGH]

SCHUMACHER: [01:13:35] Well, thank you. Thank you for your-- your efforts on this and I-- hopefully we're-- we're on to developing a tool that will make it easier to make decisions so that down the road, long after I'm gone here and after-- and when Tony and Matt and Lou Ann have got to make the big decisions, it'll be easier.

SCHEER: [01:13:59] We have a five-minute break?

SCHUMACHER: [01:13:59] Sure, let's have a five-minute break. We've got two or three little items, maybe not little items, to chat about when we get back.

[01:14:09] [BREAK]

SCHUMACHER: [01:18:20] We're back on-line again with some other business that we have. One of the items of business that we have is Senator Hilgers has called a meeting of the Rules Committee and asked that if there be any rule proposed changes, that it be put on his desk so he can schedule it and-- for the committee hearing. Last year one of the final acts of Senator Gloor and Senator Campbell was to suggest that the Planning Committee had two priorities and we made that proposal, the Planning Committee, unanimously, priority bills, could designate two priorities. The

Planning Committee unanimously endorsed that idea, went before the Rules Committee, and we all remember what happened with the Rules Committee. We got it to the floor. A version of the proposal was adopted and then we had our rules discussion over and over again until where we ended up was we basically said, well, let's just go back to the rules the way they were on the day we convened and let's just forget any changes and let's get some business done. So it-- it died for-- because of that unusual situation. Do we want to renew that request and that we be given two priority designations? I-- I think there was no opposition to the idea. I think at one point we got down to one priority just to try to move things along and-- and it just balls up. So do--

SCHEER: [01:20:02] I think it's-- I would be curious as what type-- because we've gotten slammed with all sorts of information. But as far as utilizing the information from a Legislative standpoint, can you give me an example of what a bill that we might prioritize would be?

SCHUMACHER: [01:20:24] Oh, but you-- either one that we develop here, because we have a statutory obligation that we've never used to propose legislation, or one that might show up on the floor that we say, oh, my goodness, that fits exactly into something not on the floor but in committee, some other committee, that fits exactly what we're talking about and we think it's important enough that we put a priority on it. I don't know if I have any particular one in mind, but it's an option that the committee could have and there may be something out there that is just a real good idea that for some reason doesn't fit your criteria as a Speaker priority, nobody wants to individually prioritize, but we say, hey, that's a good idea, needs some discussion, we've been down that road in Planning Committee.

SCHEER: [01:21:11] Well, I-- and I'm speaking probably from a different perspective but we already have a lot of priority bills and the fact that we've never had any, my preference, if that were the case, that we would start with one rather than two. It seems like whatever we give people they will utilize so if-- if this group had two, I would-- probably would find two bills that we would decide would work that, and that just compounds the problem as far as the number of bills to get through by another 2 percent. And it just-- if-- if I-- I could see that if this bill didn't get prioritized because we had to prioritize the other one and they both really matched it but I-- I'm not sure that I'm sold that there's the full need for two bills if we have never had one and we can't think of one off the top of our heads that sort of fit that mold that wasn't prioritized regardless of it was the committee or not, you know, I guess I could-- I could buy into something that I would-- I would prefer to start with one rather than two.

SCHUMACHER: [01:22:25] I'm having less and less of a dog in this hunt so I-- so it's kind of what you guys feel.

RIEPE: [01:22:34] I think one is more-- I think one is more of a logical starting point. My question would be, Mr. Speaker, how-- did we have priority bills that didn't get through in the last session?

SCHEER: [01:22:45] The only priority bill that was not heard was Stinner's but that was at his request and that would show up the first week of--

RIEPE: [01:22:55] OK.

VARGAS: [01:22:55] It was a federal inventory, right?

RIEPE: [01:22:55] So we're talking a priority bill in addition to what we already have, not in lieu of any other--

SCHEER: [01:23:00] Right. Correct.

RIEPE: [01:23:00] -- particular bill from--

SCHEER: [01:23:03] Yeah.

RIEPE: [01:23:03] -- priority from somebody else.

SCHEER: [01:23:06] You know, I-- I-- I think we're-- total is around 103 or 104 by the time everybody gets one. Some committees get-- most committees get two. Think Indian [SIC--State-Tribal] Relations get one, if I recall. I think that's the only one I can think of that only gets one.

LINEHAN: [01:23:24] I'm sorry, which one only gets one?

SCHEER: [01:23:27] I think it's the Tribal Relations Committee--

LINEHAN: [01:23:29] OK.

SCHEER: [01:23:29] -- I think gets one but I'm not positive. But I believe it's only one that they receive and then the 25 the Speaker allots.

SCHUMACHER: [01:23:40] What does Performance Audit get?

WATERMEIER: [01:23:42] Two.

______________: [01:23:42] Two.

SCHUMACHER: [01:23:43] Two? And that's a statutory committee just like this one.

WATERMEIER: [01:23:46] Um-hum.

STINNER: [01:23:46] If we were to come up with a bill, would our procedure be to have an open hearing on it just like we do in committee?

SCHUMACHER: [01:23:53] That's an unanswered question, isn't it, whether or not it has to be referred to another committee or whether we [INAUDIBLE] hearing on it.

STINNER: [01:23:59] Yeah, well, that was part of the discussion--

______________: [01:24:01] [INAUDIBLE]

SCHEER: [01:24:01] -- last year on the floor was this committee has never had any bill that's been referenced to it so, you know, how to determine what bill would be referenced here.

RIEPE: [01:24:16] Is there a way to establish some guidelines in terms of what a priority bill out of this Planning group could be or should be so that it doesn't get a priority that's assigned off to some-- something that's totally unrelated to planning?

SCHEER: [01:24:30] Yeah.

WATERMEIER: [01:24:34] That's a little risky because there really is no statute, there's really no guideline that says, because most of the committees, the chairman picks the priority. Now they may consult with the rest of the committee but the chairman has the right to just pick their priority.

SCHEER: [01:24:47] And-- and as I recall, and you can correct me, Paul, I think your proposal last year was that the committee actually voted on--

WATERMEIER: [01:24:53] Right.

SCHEER: [01:24:53] -- the prioritization not the committee chairmen as was--

VARGAS: [01:24:57] That was-- I think that's what made me think-- me more comfortable with the two, because that means that it's not given, right? So you'd have two. We might not even use it because everybody at the table might not agree whether you're going-- putting a designation on it. But one--

SCHEER: [01:25:09] Well, but that's assuming that we utilize that second one.

VARGAS: [01:25:18] If-- if we utilize that, yeah. If not, then I'd probably be comfortable with one. But your bill actually is an example of something that I think would affect long-term planning, right? Like if you were to put a priority designation on your bill, right, this federal long-term sort of inventory, I would consider that something that might be worthy of a designation from our committee. That's in my opinion.

STINNER: [01:25:40] I'm just thinking if the, you know, the Planning Committee meets out of session like we have been and we would develop some kind of bill at this point, say we want to modify the Tax Rate Review Committee, would that require us to have a hearing before we would put that into an LB or would you say--

SCHEER: [01:26:05] Well, it would have to have a hearing in front of some committee, in front of [INAUDIBLE]

STINNER: [01:26:09] [INAUDIBLE]

SCHEER: [01:26:09] [INAUDIBLE] some of the discussion.

SCHUMACHER: [01:26:11] [INAUDIBLE] once it is introduced. But for us to introduce it I think--

STINNER: [01:26:14] OK. I'm just procedurally trying to figure out how it [INAUDIBLE]

SCHEER: [01:26:16] [INAUDIBLE] I mean, so, I mean, technically a senator needs-- somebody's name is going to be on the top, so whoever it might be. So in your case, using your bill, it might have had Paul's name and the rest of us signed off on it. Now technically it could have gone to Revenue or someplace else as a-- as a referencing point. But it would still allow us as a committee to prioritize it.

STINNER: [01:26:40] OK.

WATERMEIER: [01:26:41] But I think what you're getting at, Senator Stinner, is that you would have us add a hearing and receive the bill and I wouldn't-- probably not be in favor of that idea.

STINNER: [01:26:48] Why?

WATERMEIER: [01:26:48] Because it mixes up the referencing process, it mixes up a lot of things, clerking it, doing lots of things, then having a fiscal analysis of it. So I feel comfortable with us maybe just individually, any of us, introducing a bill and then asking the Planning Committee and giving it authority, the Planning Committee, to prioritize one bill. And then you could do it with a vote of the committee--

STINNER: [01:27:07] OK. That--

WATERMEIER: [01:27:07] -- instead of just--

STINNER: [01:27:07] And that--

STINNER: [01:27:07] That explains a lot to me [INAUDIBLE]

WATERMEIER: [01:27:07] -- turning it over to the committee [INAUDIBLE]

SCHEER: [01:27:07] -- that would be similar, too, as--

______________: [01:27:07] [INAUDIBLE]

WATERMEIER: [01:27:07] Right, yeah.

VARGAS: [01:27:07] Does Performance Audit do that?

SCHEER: [01:27:07] -- Performance Audit. We do-- we do-- we do not have hearings on a bill.

______________: [01:27:18] [INAUDIBLE]

SCHEER: [01:27:18] Any bill we would have would go through either Appropriations or--

WATERMEIER: [01:27:20] Whatever it needs to be.

SCHEER: [01:27:20] -- Exec or somebody.

WATERMEIER: [01:27:20] [INAUDIBLE]

VARGAS: [01:27:20] So a bill has to get out of committee--

WATERMEIER: [01:27:25] Most of them go to Revenue.

VARGAS: [01:27:25] -- and then we put the-- we vote on the designation--

STINNER: [01:27:26] Right.

VARGAS: [01:27:29] -- on whether or not it gets out and--

SCHUMACHER: [01:27:29] I think the statute specifically says the Planning Committee can-- shall, not can, shall propose legislation. So I don't know if we need a-- I mean I think a committee vote could propose--

WATERMEIER: [01:27:41] Yeah.

SCHUMACHER: [01:27:42] -- something.

SCHEER: [01:27:42] It could. It-- but it still doesn't necessarily mean it would not come back here for a hearing--

______________: [01:27:47] Right.

______________: [01:27:47] Correct.

SCHEER: [01:27:47] -- is what is the point.

______________: [01:27:53] Correct.

SCHUMACHER: [01:27:53] Wasn't the thing that we proposed last year just parroted the-- or pretty much parroted the-- the Performance Audit language? You remember, Peg?

PEG JONES: [01:28:06] I think it's what you said.

SCHUMACHER: [01:28:07] I think we were-- well, whatever we introduced last year, but with one, is that the proposal?

SCHEER: [01:28:12] Yeah, I-- I-- because I believe that one just, you know, gave us the ability to prioritize.

SCHUMACHER: [01:28:18] Prioritize, yeah. OK.

SCHEER: [01:28:18] We did not have hearings. It would be referenced somewhere. We would just have the ability as a committee to prioritize a bill.

SCHUMACHER: [01:28:29] Right. Folks, if that's the way you want to-- you want to go, you know, somebody make a motion that we reintroduce it but with one instead of two priorities.

VARGAS: [01:28:42] So moved.

______________: [01:28:42] Second.

SCHUMACHER: [01:28:42] Second? Moved and seconded. All in favor? Any opposition? OK, that's what we'll do.

PEG JONES: [01:28:49] What's the motion going to say?

SCHUMACHER: [01:28:52] That we reintroduce the-- the same thing as last year but with one priority.

HANSEN: [01:28:57] Which I think is what was briefly adopted on the Rules Committee.

SCHUMACHER: [01:28:59] Yeah, I think so. OK.

RIEPE: [01:29:02] So you're saying we introduce, we present this to Senator Hilgers.

______________: [01:29:06] Right.

SCHUMACHER: [01:29:06] Well, present it to Hilgers as a suggestion of this group. The next item is, do we want to propose any legislation? Is there anything that we want to stand by to maybe propose? There's a lot of uncertainty in a lot of things and we do have that particular power. One thing that I, and maybe, John, you've been watching it, too, but I've kind of been watching it and don't have much of an answer to but it could be very dramatic, and that is the Senate version of the tax bill suggests that a certain percentage--I think it's 20-some percent--of Subchapter S and LLC income be excluded from taxation. And it's really so far unclear as to what exactly that means. If it is excluded on your Form C or your--which is business income, private business income--Form F, your farm income, the Schedule E, the supplemental income for rental and things like that, then it would be reflected in the bottom line on your tax return, on your front page of your tax return, which we use as a starting point for the computation of our taxes. So if we lose 20-some percent of our Subchapter S LLC tax base, I think that's going to translate into a huge number and a-- that we, you know, we're going to have to deal with. And I'm not sure if anyone else is equipped right now to deal with it that it's certainly something we could say this will impact our numbers way out for a long time. Now the other damned-if-you-do, damned-if-you-don't thing is, if that's not the way it is and it's not reflected on the front page of the tax return, I think, and I might be wrong, but I think we have a provision that says that on the Nebraska tax return we honor all federal deductions, or [INAUDIBLE] deduction and exempt are the same thing I think for this, except state and local taxes. So even if it is not on the front page as an exclusion from income, does our present situation honor that federal deduction and, thus, it still comes off of what we can tax? And-- and that number is so huge that-- that it's-- it is a real issue if-- unless the way the wizards work it in Washington, and I don't think they're thinking about our tax form when they're doing it, work it so it somehow doesn't affect us.

SCHEER: [01:32:09] Well, I-- I think there might be other ones though that are just exclusively that. If-- if we're going to do something in relationship to whatever the tax change that may or may not be adopted, I think we'd be better suited-- I mean if they're going to do it, they've got to do it before the first year and maybe have a meeting first day or two to determine what it is we-- what-- where we think there might be impacts and, as well, as not to duplicate. I don't if Senator Smith is looking at it as part of Revenue as well so, I mean, there really wouldn't be any reason for both of us to be doing the same thing. So that would be something that you might see in your committee there as well.

SCHUMACHER: [01:32:54] We passed a thing last year. It called for a report on the impact of tax changes. But I don't know how quick that is going to be available and where this is somewhat troublesome is if this is a federal law and I'm an accountant or a lawyer and I'm talking to a client about his estimated tax payments and he wants to know whether he's-- he can take that adjustment, we may see an immediate impact on revenue in the first quarter.

RIEPE: [01:33:24] Is Mike looking at that?

SCHUMACHER: [01:33:25] What's that?

RIEPE: [01:33:25] Is Mike-- you know, the-- from a-- the financial staff, are they looking at that?

SCHUMACHER: [01:33:31] I asked Mike. They're--

STINNER: [01:33:32] They're trying to follow it but nobody knows.

SCHUMACHER: [01:33:34] Nobody knows.

LINEHAN: [01:33:36] Right. It's--

SCHEER: [01:33:36] [INAUDIBLE] and that's why I'm just suggesting [INAUDIBLE]

RIEPE: [01:33:37] [INAUDIBLE] running hypotheticals.

SCHEER: [01:33:40] -- do what they're going to do.

SCHUMACHER: [01:33:40] But it is-- keep your eyes open on that because that's huge. If the Senate version is passed and it's an exclusion of Subchapter S and LLC income someway, how that's going to hit us.

STINNER: [01:33:53] Well, anything that affects the adjusted gross income, that's what we basically--

_______________: [01:33:58] Right.

STINNER: [01:33:58] -- drives our rates is going to have an impact [INAUDIBLE]

SCHUMACHER: [01:34:01] Are you-- are you aware of any other thing out there drifting around that could impact adjusted gross income?

STINNER: [01:34:06] You know, I-- I-- I'm sure there are some things. I don't-- I'm not aware of it but simply because I'm just kind of waiting to see what the last-- just what comes out. We'll be able to draw direct lines to our tax return, though, is the first impression I had. And so we could deal with it or you could deal with it in Revenue. But there's going to be behavioral changes. There's going to be a whole lot of other things that we haven't even thought about or nor will we recognize for a period of time so that might be the acceleration of capital gains, it could be the deferral of income, those types of things, and what they're allowed to do. Obviously they're trying to use this as stimulative. So as you repatriate dollars back here, hopefully you'll see a lot more investment in property, plant, and equipment, and how that plays into long term growth. I-- I don't know. I'm hoping it-- I hope it's stimulative, let's put it that way.

SCHUMACHER: [01:35:04] Along the lines of behavioral change as a response, part of the theory I think is that corporations are going to drag a bunch much more money back into the country because they don't have to pay the 35 percent tax. If that theory is correct, then they're going to reinvest that money in-- somewhere in this country. Now hopefully--

STINNER: [01:35:28] We're paid out--

LINEHAN: [01:35:29] That's the plan.

LINEHAN: [01:35:29] That's the plan.

STINNER: [01:35:29] We're paid out in dividends which is a tax advantage--

SCHUMACHER: [01:35:31] Right, we're paid out.

STINNER: [01:35:32] -- or, you know, hire more people which is stimulative.

SCHUMACHER: [01:35:36] And that plays into the issue. Right now our tax rate-- or the federal tax rate is 35 percent. The Nebraska tax rate on corporations pretty much is 7.81 percent. OK, so we're about 20 percent, a little over 20 percent of what the federal rate is. If the fed rate drops down to 20 percent and we're sitting with a 6-- or 7.81 percent state tax, we've pretty much taken ourselves out of the hunt for any of that repatriated money--

SCHEER: [01:36:12] Yeah.

LINEHAN: [01:36:13] Yes.

SCHUMACHER: [01:36:13] -- because I, if I, if I'm one of those guys making a decision, I'm not going to a state that has 7.81 percent tax on me when the federal is only 20.

SCHEER: [01:36:21] Yeah.

SCHUMACHER: [01:36:24] And that, that's-- that's a chunk of money on revenue.

RIEPE: [01:36:30] You're just full of good news, aren't you?

STINNER: [01:36:31] Hey.

STINNER: [01:36:32] Well, thank God it's just-- it's one of our smaller areas, huh?

LINEHAN: [01:36:35] I will say, if it helps you sleep, Senator Schumacher, that usually the House wins in Congress.

SCHUMACHER: [01:36:41] Usually it wins? OK.

LINEHAN: [01:36:41] The House, because the members actually go and in the Senate they send staff members, Trump staff and conferences so.

SCHUMACHER: [01:36:49] Well--

LINEHAN: [01:36:49] They don't always win but the House usually wins.

SCHUMACHER: [01:36:56] Well, and all the House bill--

SCHEER: [01:36:57] The house always wins, doesn't it?

WATERMEIER: [01:36:57] Yeah the house [INAUDIBLE] Vegas the house is winning.

VARGAS: [01:36:57] It's not Vegas, folks.

SCHUMACHER: [01:37:00] But even the House version on that one is-- what do they set the-- they set the corporate rate at 20 percent.

LINEHAN: [01:37:07] Yeah.

SCHUMACHER: [01:37:07] So it's-- it's-- on--

LINEHAN: [01:37:08] No, I was going back to the [INAUDIBLE]

SCHUMACHER: [01:37:09] The former one.

LINEHAN: [01:37:09] Yeah.

SCHUMACHER: [01:37:09] Yeah. And it would-- well, I guess the topic is any legislation we're particularly that gung-ho about at this point or want to have Bill Drafters work on or anything like that.

VARGAS: [01:37:30] I'm curious about what Mike was saying around finding a way to codify this tool that we created. And I don't know the right cycle but I think what he said is putting this in two time periods where we shall review these projections of the General Fund outlook, coincide with the tax revenue-- Tax Rate Review Committee, something to that effect. And we'd have to talk to them more, but I think that codifying this will ensure that we come back and use it and to have it a practice. Otherwise, it's going to be reactive and we don't wait to utilize it and I think we need to find ways to utilize it if we actually think it's useful.

SCHEER: [01:38:13] Well, I-- I want to make sure that it's useable, to be honest, because right now it's not. I mean it's-- it's maybe better than we-- we had, but it's not really a finished product. And I guess I'm not-- I'm not in the thought pattern to assume that it's going to turn into a great deal. Even if it took us another year to do that, I think we should wait until that-- the-- the product we have is closer to final form because for us to legislate that and still be, you know, under-- under construction the first time that we're supposed to use this, it's really sort of a-- to me would be a waste of time because it's not going to tell us what we-- we would prefer to have it tell us. I think we're maybe-- it sounds to me maybe one session we move to where that would be probably appropriate and I think give them time to develop the product and then codify the product.

WATERMEIER: [01:39:14] And I'll just add to the modeling that Mike was talking about with the incentive issue.

VARGAS: [01:39:20] The economic model, yeah.

WATERMEIER: [01:39:20] That came out of the Performance Audit. We actually bought the program. We had people on staff. But we had a hiccup between getting the-- the numbers from the Revenue Department internally to get it to do the modeling and I-- these two pieces would fit together nicely. So let's maybe just wait to see if we can get them put together and then make a suggestion to the Planning Committee maybe in conjunction with Performance Audit to [INAUDIBLE] to use it. But they could stand alone, either way, too.

SCHEER: [01:39:44] Yeah.

WATERMEIER: [01:39:44] I-- I kind of agree with Jim and think about it in that regard that it's probably a suggestion to maybe just wait, let them finish it up and get it-- get it going. I'd love to see the thing at home on my laptop somehow.

SCHEER: [01:39:55] Yeah.

WATERMEIER: [01:39:55] I haven't asked for it yet.

VARGAS: [01:39:57] No, I [INAUDIBLE]

WATERMEIER: [01:39:57] I don't know if we can.

VARGAS: [01:39:57] Yeah.

WATERMEIER: [01:39:57] I was going to ask Mike if it's feasible to do that yet or not. But he may not want it floating around outside of his office.

VARGAS: [01:40:04] Yeah. No, that makes sense. I was more just thinking from a-- from a standpoint of--

SCHEER: [01:40:09] Well, if we're going to even do it--

VARGAS: [01:40:09] -- if we don't-- if we're--

SCHEER: [01:40:09] --I would like to use it and--

VARGAS: [01:40:12] Yeah, yeah, yeah, yeah.

SCHEER: [01:40:12] -- ensure we-- that regardless of who is around, it's still being utilized.

VARGAS: [01:40:17] Yeah.

SCHEER: [01:40:17] But we've got to make sure what we want to utilize is really worth utilizing.

VARGAS: [01:40:21] Yeah. So insofar as we can still develop it and set a time line for that internally within this committee, then, I mean, sometimes we create-- we're going to-- we're creating processes, maybe not a tool, for like an audit tool, and then we'll then create the process and the tool that does the auditing. Right? So sometimes we do legislation sort of in the other manner. We do legislation then we ask for it. But I-- I understand what you're saying around trying to make sure we have it right. As long maybe as a committee we-- we-- we continue to work with Mike and ask them to-- to work on it, then--

SCHEER: [01:40:50] Well, I think as they-- as they tell us where they're getting close to what they perceive--

VARGAS: [01:40:56] Yeah.

SCHEER: [01:40:56] --and it's always going to be under construction, I get that--

VARGAS: [01:41:00] Yeah, yeah, yeah.

SCHEER: [01:41:00] -- but to a point to where we're comfortable that it will provide meaningful information. You know, we can develop the legislation in time. Let's face it, it's, you know, it's a short session. They're still going to be under construction for sure in the next three, four, five months, so--

VARGAS: [01:41:17] Sure.

SCHEER: [01:41:17] -- because once we start that's not going to be their top banner. They're going to be working on other stuff, so as we--

VARGAS: [01:41:22] Yeah. But I mean as we introduce legislation.

SCHEER: [01:41:25] You know, we-- October, November next year they say, gosh, I think this is probably as close as we're going to get for awhile and the-- you know, we'll continue to have some nuances to do. Well, we can always tell Bill Drafting to put it together then and-- and drop it the first day of the next year too.

VARGAS: [01:41:39] Yeah.

WATERMEIER: [01:41:40] Now, Senator Schumacher, what was the trigger that-- trigger that started you to ask Fiscal to do that? What was the trigger that-- or do you remember? Did we initiate it in here?

SCHUMACHER: [01:41:49] No, I-- I--

WATERMEIER: [01:41:50] Or did you just--

SCHUMACHER: [01:41:52] It-- it basically-- two things. Number one, I-- I-- I personally don't believe in the close to 5 percent revenue growth number. I just don't think that's realistic. I think that number was based upon inflation happening, based upon baby boomers coming on-line and God knows what else. And my-- and I think I-- I asked somewhere during the session while we were talking about numbers, can we run something that shows what it would be like at 3 percent? And there was some difficulty in doing that. And so-- and then also, I mean, I-- one of my concerns I leave here with is that we have two big expense problems aside from the federal uncertainty that are looming out there. One is the issue that you've raised repeatedly of increased need for preschool stuff. OK? Our education system has some issues and-- and-- and how we're going to deal with that and they're probably going to cost money. And the second thing is the baby boomers, a huge-- and so I said-- I-- I-- I went to Mike and I said, can we, beyond just looking into the next-- you know, putting out the fire, can we take something and develop a spreadsheet where we can say what if this is what happens, what will it look like? If there is no baby-boomer bus-- bump, you know, it-- what will it look like? If there is one, how will that impact us? If we pass this bill mandating these increases in TEEOSA or these tax cuts, how will that impact us? And he was-- drug his feet a little bit to begin with and but then they-- they took up the cause, and I-- I-- I think he's seen that there's some potential there.

SCHEER: [01:43:36] No, I--

WATERMEIER: [01:43:37] Or doesn't he? You're worrying me.

SCHEER: [01:43:38] No. I just read that the accuser with Moore in Alabama now has admitted that she forged the inscription on the yearbook. Well, that, you know--

LINEHAN: [01:43:53] There you go.

SCHEER: [01:43:53] Yeah.

SCHUMACHER: [01:43:54] She was madly in love with him. She had to.

SCHEER: [01:43:54] Well, I, I don't know, but I mean it's--

LINEHAN: [01:43:57] Oh, God.

______________: [01:44:02] What?

WATERMEIER: [01:44:02] I have to leave for an 11:00 meeting but--

SCHUMACHER: [01:44:02] OK.

SCHEER: [01:44:05] But the guy's going to get elected now because they're going to say, well, everything else is a lie, so [INAUDIBLE]

SCHUMACHER: [01:44:09] Right. Did-- did-- does Performance Audit, from what you've done over there, is there need for some more legislation so we can get information out of Revenue?

WATERMEIER: [01:44:16] Well it's a-- it's a process through the-- it's a complicated deal.[INAUDIBLE] has been learning the process, not ready-- not-- we're not yet. We're getting close I think.

SCHEER: [01:44:25] Well, and Revenue has--

WATERMEIER: [01:44:25] And part of it we can do with just a memorandum of understanding in terms of our responsibility from Performance Audit. We close our eyes, turn it over to Fiscal, and Fiscal can do it, but it has to be set up properly. And then we have the people in place. Malick is here and ready to do it and the modeling is here. But it-- it's just turned into [INAUDIBLE]

SCHEER: [01:44:44] I mean we keep running into roadblocks--

WATERMEIER: [01:44:45] Yeah.

SCHEER: [01:44:45] -- because of confidentiality.

WATERMEIER: [01:44:48] Confidentiality.

SCHEER: [01:44:48] And, you know, they keep throwing everything-- well, if there's only three companies that fit in this, we can't give information because it's too easy to discern which one is doing what and, I mean, it's-- it's a mess.

SCHUMACHER: [01:45:02] Is some of that our-- of our own creation though--

SCHEER: [01:45:05] Probably.

SCHUMACHER: [01:45:05] -- [INAUDIBLE] statutes saying thou shalt not tell us even if we want to know?

WATERMEIER: [01:45:08] Probably the federal level--

LINEHAN: [01:45:08] Yeah, they--

WATERMEIER: [01:45:10] -- because they've, they've signed a federal. That's their problem. We can't get around that.

SCHUMACHER: [01:45:13] And as-- as a condition to an incentive program or some of this stuff, could we require a waiver of that federal thing?

_______________: [01:45:21] Probably.

WATERMEIER: [01:45:21] That we probably could do. That has been-- that's always-- always my hope has been in the next incentive program we write or adjust or create, is that we put in better metrics and we put in the reporting mechanism that we really need.

SCHEER: [01:45:33] If you're going to use it, we got to know how it's being used.

WATERMEIER: [01:45:36] But anyway, what I was going to ask is, are we prioritizing what we maybe heard about? You know, you had mentioned the preschool and the demographics with the aging population. But just like the lack of revenue, loss of revenue, are we-- are we-- are we going to kind of publicly say it or just amongst us, raise straw vote? I think our biggest issue is the aging population or I think our biggest issue is the pre-K. I don't know if people are thinking about a conclusion to this year or-- I don't think--

SCHUMACHER: [01:46:04] Oh. And that's-- that's what this discussion is supposed to be about a little bit. Those are longer term things in my mind. And just throwing my two cents' worth out, not that it means a whole lot, the biggest thing for priority is we need that Cash Reserve stronger.

SCHEER: [01:46:20] Yeah.

SCHUMACHER: [01:46:20] We don't have that, we could talk, we could prioritize till we're blue in the face, but we don't have any money.

SCHEER: [01:46:24] So that's one of the problems with this. We have to figure out somehow to get Cash Reserve built in there.

STINNER: [01:46:32] I think it has-- I'm working on in this legislation for this time. But in less volatile times, if, indeed, we're in less volatile times, we will see less of a forecasting error. And if you see less of a forecasting error, we could hit an air pocket again or a downturn without having the-- without having the Cash Reserve where it needs to be, so.

SCHUMACHER: [01:46:52] Well, should-- since we know this is a long-term problem, this ain't going to go away, this is the immediate budget, is that something we should speak on as a committee to say, look it, our consensus is we got to do something on the Cash Reserve?

STINNER: [01:47:05] I-- I would think, I would think any kind of help that we can get and any kind of message that we can take to the floor and make people understand about these business cycles, the need for the Cash Reserve and a robust Cash Reserve, is-- I-- I think-- but the fact of the matter is right now the only way we add to the Cash Reserve is by forecasting error. I, I just think, yeah, leave that in place and codify that. But also put some other language and that's what I'm working on is language to add to the reserve during good times.

SCHEER: [01:47:40] Yeah. The reserve is not the swamp so we don't want to drain that swamp.

RIEPE: [01:47:43] Whatever that definition [INAUDIBLE]

_______________: [01:47:43] [INAUDIBLE]

STINNER: [01:47:43] Yeah, well--

SCHUMACHER: [01:47:46] But we've got so much of it.

STINNER: [01:47:48] -- if we're going to-- if we're going to generate revenue [INAUDIBLE]

WATERMEIER: [01:47:50] Paul, there was discussion. I'm not sure if it was-- Senator Stinner was there or not, but we had a discussion about-- in Appropriations, probably before you were here, Senator Vargas, but about mandating that it was 16 or 17 percent of our General Funds. And I just-- I kind of fought that. I just didn't feel like that was our place to say that. But there's room for discussion on it. And just stating that you need a strong Cash Reserve, first thing people are going to say is, well, what's the number?

SCHEER: [01:48:12] Yeah.

WATERMEIER: [01:48:12] Is It 12 percent or 18 percent or 5? And we've seen those numbers from other states. They're all over the place. So, yes, we need a strong reserve but better be ready to-- to measure it somehow. I don't-- I don't know.

SCHUMACHER: [01:48:26] Well, certainly we need one at least as strong as it is now.

STINNER: [01:48:28] We had-- we had a-- an LR on that and a hearing on the Cash Reserve. Pew Foundation actually put together a model that shows different levels of Cash Reserve and what it means in terms of coverage, like insurance coverage. And I think you can relate to some of that, but I can get all of that information put together for the Planning Committee if they want to see it.

SCHUMACHER: [01:48:54] Well, assuming we get a priority or something and-- and some of this needs help, that-- that is a short--term-- that's something that all the planning in the world isn't going to do any good if, again, we don't have money.

STINNER: [01:49:07] Yeah, well, especially when we're taking a look at what we can do in tax reform. And, you know, if you're going to do some tax reform, let's make sure that at least we have something in there to protect and to grow that reserve back because we're going to deplete it this time around, folks.

VARGAS: [01:49:23] It's what we don't do at the federal level. Yes, I agree with you.

STINNER: [01:49:27] Yeah, well--

WATERMEIER: [01:49:28] Bingo. [INAUDIBLE]

SCHUMACHER: [01:49:29] Is it everyone's kind of sentiment that maybe the first day or two of the session we should try to get together in the afternoon--

WATERMEIER: [01:49:36] I think so.

SCHUMACHER: [01:49:36] -- just because we should know the federal landscape then and--

STINNER: [01:49:40] Yeah.

SCHUMACHER: [01:49:40] -- and maybe if what you're working on, some of this Cash Reserve stuff, we'd know if you need any help--

STINNER: [01:49:46] Yeah.

SCHUMACHER: [01:49:46] -- with a priority. And we-- we should know whether or not our priority deal flies if-- unless we all [INAUDIBLE]

STINNER: [01:49:50] I should-- I should have a [INAUDIBLE]

WATERMEIER: [01:49:50] We probably won't know the first day, I don't think.

SCHUMACHER: [01:49:52] Probably not but we'll have a general idea--

WATERMEIER: [01:49:55] Yeah--

SCHUMACHER: [01:49:55] -- unless we fight for a month again.

WATERMEIER: [01:49:56] -- unless there's a big-- if there's nothing controversial in what Rules is proposing, then you might could say--

SCHUMACHER: [01:50:01] In other years, besides last year, we were done with the rules by the second day.

LINEHAN: [01:50:08] Yeah.

SCHUMACHER: [01:50:08] You know, but last year we-- we made up for that. We-- our average is not--

STINNER: [01:50:10] It was a unique session.

VARGAS: [01:50:13] But a filibuster on a priority-- our priority designation for our committee. Based on what you said, just to clarify, are you saying that you think it might be a good idea for us as a committee to summarize what we've been working on this year and then disseminate that out to the body at some point?

SCHUMACHER: [01:50:30] Yeah. And in fact I think we're supposed to do that.

PEG JONES: [01:50:32] Yeah.

VARGAS: [01:50:32] We are supposed [INAUDIBLE]

SCHUMACHER: [01:50:34] And you've been working on some kind of--

PEG JONES: [01:50:37] I've been thinking about it.

SCHUMACHER: [01:50:39] Well, I-- I-- I'm sorry. I know you don't work but--

WATERMEIER: [01:50:42] She works like I do.

VARGAS: [01:50:43] And just in terms of a process, to your point, like because we've talked about a bunch of things, but then the next time we come around you're saying that we need to mutually identify what we consider our priorities so that then they can be reported out. Is there a-- is-- is that right?

SCHUMACHER: [01:50:57] Well, we can-- at that meeting we can and-- and--

VARGAS: [01:51:01] OK.

SCHUMACHER: [01:51:01] And she will play so much as she gets a draft of something put together for us and-- and we'll take a look at it there then.

STINNER: [01:51:08] You can write my newspaper column on it, how's that, what we did in Planning Committee, and I'll just give it to the-- I'm just kidding you.

WATERMEIER: [01:51:16] Do you want to guide us right now to say-- would you like our suggestions and what it might-- that might help you on the January 3 meeting?

SCHUMACHER: [01:51:21] Yes. Yes.

WATERMEIER: [01:51:22] How about you wait till then and then you could ask for it?

SCHUMACHER: [01:51:24] Well, well, why don't--

WATERMEIER: [01:51:24] OK.

SCHUMACHER: [01:51:24] [INAUDIBLE] as-- as things evolve, Senator.

WATERMEIER: [01:51:27] Send us a note and say what you would like us to give you back.

VARGAS: [01:51:30] Yeah.

SCHUMACHER: [01:51:30] OK. All right.

VARGAS: [01:51:30] That would be helpful.

WATERMEIER: [01:51:30] Then we-- we're all in the same or we might just give you something you can't put together. I don't know.

VARGAS: [01:51:35] Yeah. Send us your top three priorities [INAUDIBLE]

WATERMEIER: [01:51:38] [INAUDIBLE] one that's OK but I mean we're just--

VARGAS: [01:51:41] [INAUDIBLE]

SCHUMACHER: [01:51:44] We-- we know certain things. We know that we looked at demographics. We know we worked with Fiscal to develop a tool that's still in progress. And then we-- you know, this is where the focus should be and we know that having a strong Cash Reserve is a-- is-- is a priority even though we don't-- may not know-- be able to put a number on it.

WATERMEIER: [01:52:05] You know, Paul, I appreciate where we've gone this year. The Planning Committee is evolving and it's just because of the need of the body feels like it ought to be a little different. When I first came, it was talking about like water issues, which I think it was informative to the membership of the committee and the body. But now I think we're getting into the weeds a little bit on some of this stuff and that's OK. It's-- it's fine, so--

SCHUMACHER: [01:52:26] The-- the-- the frustration I had with Planning Committee for the first, whatever, six years that I was on it is huge amount of really interesting stuff.

WATERMEIER: [01:52:33] Exactly.

SCHUMACHER: [01:52:35] But it then became really interesting stuff that sat on--

WATERMEIER: [01:52:38] And it never went anywhere.

SCHUMACHER: [01:52:38] -- sat on a shelf like every--

WATERMEIER: [01:52:40] Yeah.

SCHUMACHER: [01:52:40] -- like so much does.

WATERMEIER: [01:52:41] It was identifying things but it really had no mechanism to go forward with it.

SCHUMACHER: [01:52:45] Right.

WATERMEIER: [01:52:45] I mean I just remember very well that first Planning Committee meeting I went to with Senator Harms. It just talked about so many issues but there were just-- it just ended right then in a report, I guess, probably didn't even--

SCHUMACHER: [01:52:57] Yeah, and somewhere in our office I got a box of reports that came with the Chairmanship and the box is there if anybody wants to go through it.

WATERMEIER: [01:53:07] All right.

SCHUMACHER: [01:53:07] Anything else, folks?

VARGAS: [01:53:07] Just like to welcome Senator Linehan to the committee.

LINEHAN: [01:53:15] Thank you.

VARGAS: [01:53:15] Yeah [INAUDIBLE]

LINEHAN: [01:53:15] I'm sorry I was late. I was-- I got up--

STINNER: [01:53:16] Don't ever let that happen again, young lady.

LINEHAN: [01:53:18] I won't. I got up early enough.

SCHUMACHER: [01:53:22] Record-- along those lines, the record should reflect that everybody was here but Senator Williams. And motion to adjourn?

LINEHAN: [01:53:28] Thank you.

RIEPE: [01:53:30] Thank you.

LINEHAN: [01:53:30] Motion to adjourn.

_______________**:** [01:53:30] Second.

_______________**:** [01:53:30] Second.

SCHUMACHER: [01:53:30] All in favor? All right.