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The Legislature's Planning Committee met at 9:00 a.m. on Friday, September 15, 2017, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing. Senators present: Paul Schumacher, Chairperson; Tony Vargas, Vice Chairperson; Matt Hansen, Merv Riepe; Jim Scheer; John Stinner; and Dan Watermeier. Senators absent: Matt Williams.

SENATOR SCHUMACHER: We'll call the meeting of the Planning Committee to order. This is the legislative long-range Planning Committee. For the benefit of the folks in the audience, it was created about ten years ago with the idea of trying to do some long-range planning outside of what is the usual politics that drives the legislative races and two- and four-year ahead outlooks and probably not much more than that. The Planning Committee over the last ten years has done a lot of good work with great help from the University of Nebraska at Omaha in analyzing some of the demographic trends, some of the status within the state, largely based upon interpretation of some of the census data. And it...we kind of become enlightened on that. What we did not do as we were becoming enlightened is figure out how to translate that enlightenment into public policy. So kind of in an overview of the way maybe even strategy works is you look at where you're at. We kind of got an idea of where we're at and we're going to review some of that today with some of the review of the demographics material. We did that also last time. There were several members of the committee that were missing last time so we're going to rehash a few things. And so we know where we're at and we ask the question if we stay on the present course, where are we going to be out there ten years to the extent that's humanly possible to kind of get a general idea 20 years from now. And then the final question is if we don't like where it looks like we're going, is there anything within our means to change course? And all that when you're peering that deep into the future requires a great deal of freedom in thinking, freedom in analysis. So this committee, unlike maybe a lot of the other necessities in the other committee, has invoked the doctrine of academic freedom. In this committee you can say things you don't believe. You can argue against things that you do believe. You can throw out wild ideas, ask questions that in the normal context of things would be heresy and actually that's encouraged because it's that way that we kind of peer into the future. Initially, I'm getting better at this, I'd ask for approval of the transcript as our minutes of our last meeting.

SENATOR STINNER: So moved.

SENATOR HANSEN: Second.

SENATOR SCHUMACHER: All in favor?

MEMBERS: Aye.

SENATOR SCHUMACHER: Opposed? Okay, that's done; that's out of the way. This meeting we're going to review...first of all, we have someone here from the...Mr. Jeff Chapman from the Pew Charitable Trust, Pew Institute, to share with us just a little bit since he's in town and it's convenient for all of us today, on long-term trends with economic development tools. We will then have Jerry Deichert and Craig...is Craig here today?

JERRY DEICHERT: Craig couldn't make it today.

SENATOR SCHUMACHER: Craig couldn't make it, okay. Review some of the demographic high points that we've learned over the past and reviewed some of our discussion. And finally we will get into a little bit of a new territory for the committee and that is engaging the Fiscal Office and the wisdom that's been built up there over the years, largely embodied by Mike Calvert, in how our finances work long term and what we might be able to anticipate long term. Because if you don't have money, then is this all just talk? And he's developed some tools that are really pretty interesting. We touched on those last time. Quite a few members were gone. And this time what we're also going to do in addition to review what was done last time and some of the spreadsheet tools kind of thing that were developed, we're going to try to look at like the top three or four expenditure categories and begin to peer into the future as what our expenditures might look like, whether they're going to be trend line increases, whether we can expect a big bump in expenditures, or some of the expenditures go away and try to figure out long term...if you look at something long term, whether you might be able to make better short-term decisions and not make a short-term decision that takes you off the long-term course. So that's where we're at. And you've heard enough from me so, Mr. Jeff Chapman, welcome, from the Pew Institute to

Lincoln and welcome to our committee. And if you'd share some of your observations and what you've learned to help make us a little smarter here.

JEFF CHAPMAN: Great, thank you. I don't plan on saying anything I don't believe, but I'm always excited to throw out wild ideas. So I was happy to hear that. I'm part of the team at Pew that works with states to help make sure that their tax incentives for economic development are economically effective and also fiscally sound. And today I want to discuss some different options, drawing from the experiences of other states, for making sure that the Nebraska Advantage Act remains affordable and predictable for the state and for businesses over the long term. And many states around the country recently--including Hawaii, Louisiana, Ohio, Oklahoma, Oregon, Michigan, New Mexico, New York, and more--the cost of specific tax incentives has grown very quickly and unexpectedly by tens or hundreds of millions of dollars more than was expected. And when that happened, lawmakers have been forced to make difficult choices between raising taxes or cutting spending in other areas to account for the loss of revenue. For example, just a couple years ago Michigan lawmakers had a sudden mid-year budget gap in the hundreds of millions of dollars because one of their incentive programs was suddenly costing the state a lot more than they had anticipated. In Nebraska, the Department of Revenue's most recent annual report on the Advantage Act found that tax credits businesses earned nearly doubled from 2015 to 2016, going from $84.8 million to $165.7 million and that the credits used increased by more than $30 million in that same time frame. The Legislative Audit Office recently assessed the Advantage Act's fiscal protections as part of the recently enacted valuation process. They noted that Nebraska gathers and shares high-quality data on the costs of the Advantage Act, which is a key factor in predicting costs. It noted that there was other key fiscal protections in place, in particular, that money is only paid out based on performance, at least if companies meet their goals. However, the audit also raised concerns about how the design of the Advantage Act contributes to unpredictable budget costs over the long term. So I'd like to talk about three fiscal protections that the Advantage Act lacks that many other states have put in place on their programs. So first of all, a cap on the total cost of the program; second, a cap on how much each company can claim; and third, some controls on the year-to-year cost fluctuation and I'll go through each of those. As you know, a project that receives tax incentives through the Advantage Act goes through four time periods. First, there's the application; then there's the attainment; then third, the entitlement period; and then fourth, the carryover period.

And when you think about fiscal protections, you have to think about this process. So starting with the application process, there's standards written into statute that provide a measure of fiscal protection as applications that don't meet those standards don't get approved. But the Department of Revenue is required by law to approve any application that meets those standards. Each approval represents a long-term financial commitment on the part of the state, and there's no upper limit on the cumulative size of those commitments. So current projections show that the size of the program will continue to grow as there's more applications representing more money. So one fairly simple option to help ensure the ongoing affordability of the program is to consider placing a cap on the value of the commitments approved each year. Our research show that caps are a very common and effective way to limit the growth in the cost of tax incentives. Caps can also be adjusted year to year. If you decide you want to invest more money in a program or less money, you can adjust frequently. So, for example, Iowa lowered the cap for their economic development incentives in fiscal 2011 when the downturn was straining their budget; but then they raised it back up again in 2013. So it's important if you think about implementing a cap to think about how you want to implement it. One option is using a first come, first serve approach. My understanding is this is how Nebraska administers a cap on its angel investment tax credit and a number of other states use this method. Basically, the Department of Revenue would just monitor the value of the credits that are being committed in each application they receive, and they would stop receiving applications when the annual limit is reached. This option has the advantage of requiring only minimal changes to the current application process. The downside is once the limit is reached for the year businesses would not be able to access the program even if they offer very strong economic development opportunities for the state. An alternative to the first come, first serve option could be having a competitive selection process. For example, earlier this year Alabama redesigned its Historic Rehabilitation tax credit. They had had a first come, first serve approach; but one of the changes they made this year was to put into place a committee to assess applications for the program. That includes executive branch officials, including economic development and budget officials as well as legislators. And they have a set of criteria that they use to determine which are the most worthy projects to pursue. And that includes the historical value of the project, the return on investment, and the local support for the project. Similarly, California stages multiple competitions each year for incentives under its California Competes tax credit. There's specific dollar amounts of incentives that are allocated for each round. And that way by using different competitions throughout the year they don't run out of money early in the year. They can have money available for opportunities that arise throughout the year. So using a competitive selection process would obviously involve a substantial change in how the Advantage Act is administered. It would allow more discretion on the part of policymakers and agency officials to choose the projects they believe would be most effective. It could potentially allow for some simplification of the current tier system if that was sort of given to more discretion. So once a company's application has been approved, it moves into the attainment period. This is a period of four to seven years depending on the tier. And during this period, they have to meet the job creation and investment commitments it made to the state. If they don't meet those commitments during the attainment period, they don't receive any incentives. If they do meet the commitments, then they move out of the attainment period into the entitlement period. During the entitlement period, which is about six to ten years, they earn and receive incentives as long as they maintain the minimum levels of jobs or investment. If they don't meet those targets, then they don't receive incentives for that year. If they exceed them, then they receive more incentives. So the way this is set up on the one hand is very positive because it ensures that money is only paid out when companies meet their commitments. However, it does result in significant budget uncertainty. First of all, there's no limit on how much each company can receive in incentives. As long as they exceed...if they exceed job creation and investment requirements, they can receive more investments (sic--incentives). So one option might be to consider placing a ceiling on the amount each company can claim. You could still determine the amount of the incentives by performance, but you would have an upper limit. And those caps could be firm specific. Especially if you combined it with the program Y CAP (phonetic), this would help ensure that the program remains affordable over the long run. Under Utah's economic development tax increment financing program, each contract includes a maximum amount of incentives the company can claim. By adding up the maximum amounts for those businesses, Utah can easily calculate the total maximum commitment under the program, something that's difficult to do under the Advantage Act. In addition to the lack of controls in the total cost, there's also significant uncertainty in when credits will be claimed and how much will be claimed each year so there can be a lot of fluctuations from year to year, which makes it hard to budget for other state priorities. So if companies hit their targets early, they can begin claiming credits early. It fluctuates depending on how successful they are in meeting their targets year to year. And that variability is exacerbated by the fact that companies don't have to claim the credits in the year in which they are earned. They can carry them over for years after the entitlement period is over. One of the key factors in determining whether a company is going to claim the credits from year to year is that they're not refundable. A company can't receive Advantage Act credits beyond their tax liability. So protecting the state budget from this year-to-year fluctuation is a lot less simple than putting in a cap on the program. The year-to-year cost of the program would be more predictable if you shortened and standardized the attainment periods, if you made it so the credits weren't based on performance, and if you made them all refundable. But those changes would weaken some of the stronger features of the program, including some of the fiscal protection features that ensures the state's money is used more effectively. So there's a...it's a challenge to figure out a way to keep a performance-based program with strong fiscal protections that doesn't on a year-to-year basis jeopardize the state's ability to predictably fund education and other priorities. The Department of Revenue currently projects that over the next ten years commitments to the Advantage Act will rise to nearly $1.5 billion. And without knowing when that money is going to come due, it makes it very hard to plan over the long term. In Minnesota, they have a Job Creation Fund that receives appropriations each year to fund economic development incentives. When economic development officials enter into agreements with businesses, they limit the value of the applications approved based on the size of the appropriation. As the firms meet the required job creation or investment thresholds in the years ahead, the money to pay out those incentives comes from the fund and so the state budget has a degree of protection from annual fluctuations. That program is not a tax credit. It's an appropriated incentive. Other states, including Florida, Maryland, and Michigan, have been moving towards budget appropriation model in part to have more control over the cost of the program from year to year. But something like this could be done for a tax credit. There could be money, you know, put into a fund to pay for this $1.5 billion over time that could come back into the General Fund when revenue falls below predicted because of Advantage Act claims. So that's just one option. I think there's a lot of different things to consider so I hope that these options can be a starting point for conversations in the years ahead. Thank you.

SENATOR SCHUMACHER: Senator Stinner.

SENATOR STINNER: I just want a clarification. You said that the Revenue Department said $1.5 billion of Advantage Act credits were applied for. And over the ten years they may come due, but we don't know when they're going to come due.

JEFF CHAPMAN: Yeah. Over the next ten years...right now I think it's $400-some million that are out there we don't know when it's going to come in. That number will rise over the next ten years to $1.5 billion. So it's going to get even bigger. But companies can take, you know, years after they're done out of the program to claim those. Again, it could be a long time before they get claimed.

SENATOR STINNER: It's interesting to note LB775 spiked $70 million, kind of a normal line on LB775. This last '15-16 it spiked $70 million. So that's a hard number to account for when you're trying to do a budget. But that's part of that jump from $84 (million) to $175 (million).

SENATOR SCHUMACHER: Senator Riepe.

SENATOR RIEPE: Riepe for the mike. My question is I think you talked about setting a cap for each, but it seems to me like there can be such a span of need that might be very limiting. And so you reward the smaller applicants than someone that wants...that needs a big number. I'm thinking, Toyota is probably not going to qualify under anything like this.

JEFF CHAPMAN: You would set the same cap for each company for sure.

SENATOR RIEPE: Oh, okay. I thought you were saying you would set...every company has a max of what they could get.

JEFF CHAPMAN: So currently in the contract you know what the incentives are going to cost if they meet the minimum targets of job creation and investment. And you know they could earn more than that. So you would want to base that maximum, you know, on sort of the minimum rate. So a large company would, you know, that was going to create a lot of jobs would have a higher cap than a smaller company.

SENATOR RIEPE: I'm reminded a little bit in Iowa for the Apple data thing I think they were spending, was it $209 million to get 50 jobs which calculated out to about $4.5 million per job. And you're kind of going, seems like a rather steep price to pay.

SENATOR SCHUMACHER: Senator Stinner.

SENATOR STINNER: I do have another observation. We do have caps on other programs other than the Nebraska Advantage Act. And I think the Nebraska Advantage Act, if I looked at my notes correctly, was about $80 million when I started, $75 million, $80 million. Now it's over $125 million of tax credits, an impact on refunds. So it is growing. It is a significant amount. It is being used which is a good thing. How to measure it divided by a number of jobs you're asking...many times that's a distortion up-front. You spent $55 million of tax incentive programs to create x amount of jobs. That looks to be a bad number. But we're asking that employer to make investments long term in property plant equipment, in jobs. And we fail to see over that period of time, you know, the accumulation of other benefits that accrue back to the state. I don't think we model that very well and track all of those things through, but incentive programs are a necessity if you're going to have economic development. I think what I'm hearing you say is portability and predictability are key components at least on the budget side of things so that's my observations.

SENATOR SCHUMACHER: I'm getting a little better at this, but I neglected to (inaudible) again. All the committee members are present for the record except for Senator Williams and Senator Craighead who has now departed the Legislature. One observation that's kind of in the back of my head for this year as we begin to look at these spikes and credit claiming and the impact they have on our ability to plan. I don't think that you have to claim a credit if you're a business and you can defer your claim.

JEFF CHAPMAN: Right.

SENATOR SCHUMACHER: And so if you've got a long enough time in which to make a claim, you've got, as a private business, the ability to defer the claim. Now the state's history is that we kind of are really afraid of debt, and we've got constitutional restrictions on going into debt. And we don't like the private sector or the lender to be able to have that kind of control over us if we look at something as debt and much less demand no debt. So in some respects, the way it is structured right now we are giving the holder of these credits the ability to trip the credit or not trip the credit on really a demand notes basis. And so in some ways that parallels somebody out there holding a demand note on the state. And that gives somebody a lot of leverage when you're facing a budget shortfall or your budget is tight or your reserves are low to say, looky here. I will defer my claim this year. But on the other hand--and there's always a but on the other hand--and so that's almost concerning that we've placed when we're talking $1 billion, $1.5 billion that much power in probably a few private hands over the state's financing. Have you seen that problem arise anyplace else? Are we uniquely situated in that problem?

JEFF CHAPMAN: No, not at all. That's a problem that a lot of states are facing. Oklahoma in particular comes to mind that has a lot of tax credit programs for oil debt can come due at anytime, and they usually come due when the state budget is hurting the most, just the way the economics work. So it can be...it has a very outsized impact on the state budget. So I think that's a useful way of thinking. But I would also add that when companies are actually receiving the credits for, you know, 15 years after they make the initial investment it's unlikely that those dollars that they're not getting for 15 years are going to have a very big impact on those initial investment decisions because the way firms value money...money 15 years from now is not worth much today. But on the other hand to the state budget, that money is worth a lot.

SENATOR SCHUMACHER: And another point, we had a tax incentive review with the Appropriations and Revenue Committee and there was a bit of a discussion at that review about whether or not a company who had acquired credits but didn't have anything to claim those credits against since they're not refundable could end up putting themselves in a position to claim credits by using a merger technique with a company who had something to claim credits against. And the reaction I think we got from the Revenue Department was, yes, that technique would probably work. And I think that was a bit of a surprise because suddenly a lot of these credits that we were hoping, thinking might not be claimed suddenly might become claimable by using a merger technique and so we better, you know, leave them on the books. And maybe that's something that a future thing should deal with. How do you...the problem generated by common corporate maneuvering like mergers and consolidations suddenly making these unclaimed credits claimable.

JEFF CHAPMAN: Yeah. The issue of refundability is tricky. If you make the Advantage Act refundable, it would be more predictable and that companies would be able to claim credits sooner so the cost would hit much sooner, which is a trade-off. Also in a number of states, Louisiana, for example, it's the fact that their credits are refundable or transferable that's really caused the problem because it just really makes it so there's very little limit on the amount that can be claimed. So certainly if you were to make it refundable, you would definitely want to think about putting a cap on the size of the program and thinking about how to fund that.

SENATOR SCHUMACHER: Senator Watermeier.

SENATOR WATERMEIER: Thank you, Chairman Schumacher. Appreciate you being here, Mr. Chapman. You've hit on a point that I've thought about the last couple years about maybe ranking applications. And you were talking about that as a potential during the application process...

JEFF CHAPMAN: Um-hum.

SENATOR WATERMEIER: ...I'm assuming for their...not in the attainment period. But just kind of dream with me a little bit how that would...you would envision that working or you've seen it work in other states because I always think of the Nebraska Advantage Act applications being signed, company is very quiet about it, doesn't want anything disclosed, then they go about their work about seeing can we really do it. And they may just drop the whole thing. They're not out anything other than 1,500 bucks application, really cheap. So just dream with me a little bit there. How would you envision a ranking process working and how we could or you've seen it work somewhere else?

JEFF CHAPMAN: I do think generally they are confidential processes because there's a lot of confidential information that the company would have to disclose to the state to go through that process. The point you make about companies dropping out of the process is interesting. I would imagine that there would be a higher threshold before they applied if they knew that they had to go through such a threshold. You might have companies more, you know, sort of prepared for that application process. But generally speaking, there's, you know, oftentimes there's a list of criteria in statute that a committee should consider. And in some cases, it acts like a first come, first serve. As long as companies are meeting criteria, they're getting approved. In other cases like this California example that I mentioned, it really is more of a competition. They have a certain amount of money and the companies that make the best pitch are the ones that are going to get that money.

SENATOR WATERMEIER: Okay. That would actually be attractive for me. I mean, you'd have the performance-based protection that it has to be performing and also you'd have this ranking idea that we could go back to our constituents and say this is serious. Now on Senator Stinner's behalf, we have to have incentives to be competitive, I'm all for making this really competitive on our end of it. I'm done.

SENATOR SCHUMACHER: Senator Scheer.

SENATOR SCHEER: On those that you have in multiple processes throughout the year, in those you're familiar with, are companies able to apply then every round until finally selected or is it once a year they can provide an application?

JEFF CHAPMAN: I'm not sure. That's a good question. I can look into that.

SENATOR STINNER: I wish we had a way of bringing some of these businesses in who have applied for the incentive to see what their criteria was. We're making some assumptions that this is a big part of their decision making. I just want to measure and talk to these folks to see how big a part it is, and if the incentives do work, if they didn't work, try to have some interviews put together with businesses of different sizes as it relates to our incentive program.

SENATOR SCHUMACHER: Do you think that would fit well into inviting them to (inaudible) this?

SENATOR STINNER: It would take some of the speculation out of this process. But that's just a suggestion.

SENATOR SCHUMACHER: We sure have a way if they'd be willing to do it. Senator Watermeier.

SENATOR WATERMEIER: Thank you, Chairman. Mr. Stinner, Chairman...Senator Stinner, we're doing that in Economic Development Committee and that will actually happen this afternoon in some regards. So I think it would be a great marriage between this committee and the Economic Development Committee to have that conversation and that education because that's exactly what I wanted to have happen in that task force was that awareness of what's going on and how hard or easy it is for companies to do it. I think it would be a great idea.

SENATOR SCHUMACHER: Well, and maybe we can pursue that if that's...

SENATOR WATERMEIER: Yeah.

SENATOR STINNER: The last time and Dan chaired the committee on...I can't remember exactly what the name was but it was about start-up companies.

SENATOR WATERMEIER: Business...

SENATOR STINNER: They all talked about the angel tax credit facility incentive programs that they wanted to continue and wanted to see it expanded because it was being utilized, it was being...actually on the angel tax credit has been booked the last couple years, fully booked by the first or second week.

SENATOR SCHUMACHER: Most of those incentives are fairly small numbers in comparison to like the Advantage Act.

SENATOR STINNER: Oh, absolutely. But I mean that would give you some idea of what's working out there, what isn't working, what kind of decision process did you have. But we heard from those folks directly that these things are important to them.

SENATOR SCHUMACHER: To the point that you raise, I noticed in one press release on this Amazon big development that they're talking about, a headquarters two or something like that, that somebody asked, well, what about tax incentives. And the response was, yeah, okay, but that's not what's governing us. And so I think that point you're raising is very, very good if you can get the businesses to be frank and honest with you as to how much they play. If you get one of these incentives, your inclination to say, oh, man, that was important. Senator Vargas.

SENATOR VARGAS: I think that's a great idea, Senator Stinner. I'm most interested in if it's through the Economic Development Committee how we codify some of these practices across all the different tax incentives. And maybe the bigger essential question is, when we're looking at them, how do we make sure there's a structure that enables some level of equity? I don't want it to be equity across not just let's say rural and urban but where our highest needs are. Maybe it does come from sort of a committee structure. The question that you asked, I don't know if there's other examples of ways that they make it more equitable or more fair and competitive because, you know, the question is, what is a really competitive application, right? And is it based off of the success of a company or is it based off of the...you know, what's the percentage, the weight on those decision-making processes? And then for our committee, where are we...what are the different sectors we're more heavily investing in equitably, not just where we think the biggest bang for our buck is going to happen or where we're going to be growing the most? But from some of the demographic conversations we've had, where should we be imposing or implementing some sort of structure that provides some equitable distribution of these funds in a fair structure? Maybe it's the round process. I don't know but.

SENATOR SCHUMACHER: Senator Riepe.

SENATOR RIEPE: My comment will go to Senator Watermeier's in the sense of being (inaudible). If you prioritize for the fiscal year which is good for government, then anyone that doesn't necessarily, it's a late-coming project, might come in the second quarter, all the prioritizing is done in the first quarter so you're saying it's not available because everything is set for the year. I would say you almost need to prioritize on a quarterly basis and they have to...if they can't get their projects going on a quarterly, they have to come back and we reassess. We might have a better opportunity for limited funds. But we have to keep some nimbleness in this when we get somebody that drops in and says I want to do something in Nebraska. I don't know how that plays to your thoughts of prioritizing. And I like banking, I like that order.

SENATOR SCHUMACHER: Senator Watermeier.

SENATOR WATERMEIER: Thank you, Mr. Chairman. You know, the thing about that, Senator Riepe, is that this attainment period is long. It's two to seven years. So they make an application, they're approved, then they have this time period to see are they actually going to get there. If they qualify, they know...they're working on that fact. If they qualify, bang, they can make it.

SENATOR RIEPE: That's not your example, is it?

SENATOR WATERMEIER: And they just have to be audited. So it's a long process but it's performance based and that's what we want. But we're talking injecting something like a ranking process like what I'd like to see in something that would be really hard to get your arms around. And then to maybe address Senator Vargas' question about what is equitable, well, now you're talking politics. Are you talking about equitable in the fact that we're going to try to help rural Nebraska over the expense of the urbans? Every single one of these projects may be best to find in Douglas County and best bang for the buck for Nebraska. So are you going to say, well, what's it going to cost us to develop rural Nebraska? So that's where the politics would come into play so.

SENATOR SCHUMACHER: Senator Stinner.

SENATOR STINNER: I just want to talk about affordability at this point, but we're talking $400 million over...divided by ten years, $40 million comes in a year that we can set aside in our budget and make that work. If it's $1.5 billion, that's $150 million under that same calculation. It may be a stupid calculation, but $90 million gap is what we've got to figure out budgetwise we're going to provide four incentive programs out of the revenue stream that we have today. That $70-million spike, by the way, was a big number. And that big number, if you remember, the last number we got was a $55 million cut in the budget. We could have done without that. I think my Appropriations members will tell you that. We had a little cut fatigue at that point. But in any event, that's from the affordability comes how we're going to proceed forward with incentive programs--what's important, what isn't important for the state. Again, I'm all for incentive programs but there needs to be some way of either rank ordering this thing and/or making sure that we can predict something in the budget from that side of things.

SENATOR SCHUMACHER: Jeff, I'll let you have the last shot at this. We're running out of time for this segment.

JEFF CHAPMAN: And I'm going to be talking a little bit more about this at the Economic Development Task Force this afternoon, but there's a lot of evidence out there about what works in the programs like this that you can take into account when you're setting up some kind of ranking process or something. So, for example, if the company sells its goods and services outside the state, that's going to be better for Nebraska. If a company pays higher wages than similar jobs in that area, that's going to be better for economic development. It's going to do more to increase wages. If the location has a higher unemployment rate, that's going to be...that's going to have a bigger bang for its buck. So there's a lot of things like that that come right out of the evidence that you can use. And finally with this evaluation process that you have in place now, you're learning a lot about what's working and what isn't and you can take that into account over time so, you know, learn from mistakes that we've made in the past and move forward on those.

SENATOR SCHUMACHER: Senator Scheer.

SENATOR SCHEER: After listening to all this, I do talk to individuals who have applied through the process. And I don't know that there is a perfect system out there. Most companies that I talked to aren't involved with even LB775. As Dan stated, it takes too long to reap the dollars. There's a lot of states out there that they see almost immediate dollars being flown in. And so I'm not sure what the marriage is because there's always going to be somebody out there, some other state that's going to provide perhaps more dollars up-front, fewer dollars but more immediate dollars. And as you said, the dollars that are eight or nine years out, they don't even count. It doesn't matter because that's immaterial on their thought pattern in the three- to five-year period that they're looking at. So I think to a certain extent perhaps ours is a little lengthy. And if you start putting terminations at the earlier date, that starts controlling the lag time that all of a sudden you have these unforeseen dollars flowing in. If we had a shorter time span and you do get to the point of sort of the use it or lose it. If you're going to do it, then do it if that's what we're banking on. We don't get to wait for five years and then just throw it all in at one shot and spike it.

SENATOR SCHUMACHER: We've kind of put ourselves in a predicament though is we've made all these commitments out there, long-term commitments, which are now coming due year by year. And so to add a surge on top of that in short-term commitments or rapid turnaround, you know, we've kind of handcuffed ourselves a little bit. Thank you very much, Jeff, for your presentation and we'll move to our second item on the agenda. Jerry, you want to continue our discussion, review things that ...

JERRY DEICHERT: I'll have to have Peg come up and...

SENATOR SCHUMACHER: We're now entering into high technology here and get the cameras to work.

JERRY DEICHERT: And for the record, I'm Jerry Deichert, that's D-e-i-c-h-e-r-t, with the University of Nebraska at Omaha. And you asked me to go over the material that I did last month because there were some people that weren't here. And it was primarily looking at some issues centered around retirement and some related issues. And if you look at...so I'm going to look at income for persons 55 and older by migration status. I think, Senator Scheer, you were interested in what some of those are and I've got that. And also looking at ag value, and I went back and looked at the latest for the census of agriculture was 2012, but I went and looked at 2007 and 2002 to see how values have changed--and I was...somebody would ask that--I was surprised at how much values had changed. So when we look at income, first of all looking at the number of people who left the state so between 2011 and 2015 Nebraska had about 6,700 or 6,800 people 55 and older leave the state. And that's probably about 3 or 4 percent of the state's population in that age group. But we also had 5,700 move into the state so we had a net loss of a little over 1,000 people in that age group on an annual basis. And if we break it out by age group, you can see that we were more likely to lose people 55 to 64, not quite so much 65 to 74, and we had pretty much an even number of people who moved in and moved out of the state 75 and older. So we had a tendency to lose more people in their 50s and early 60s. But when we look at incomes, if we look at incomes of those groups, the first chart looks at incomes for people 55 to 64. The first bars in blue are for people who left the state; the orange is for the people who came into the state; and the gray is for the people who stayed in the state. And so people in all age groups, people who stayed in Nebraska had higher incomes than people who left the state. And typically people who move into the state have lower incomes than people who leave the state. And the primary reason--I have the details on a table later on--but the primary reason why people who stay in the state make more money is because they're still working. And so they have higher sources of income.

SENATOR RIEPE: Is there any way to look at net wealth as opposed to income? No.

JERRY DEICHERT: Wealth, I've got some indicators of wealth I'll show you, but wealth is just one of those measures that is available nationally. And, you know, Senator Schumacher sent some stuff and we've looked at some stuff; and you're pretty much going to be doing a lot of hand waving to get some things for Nebraska because it just isn't there. But I do have something on ag value that was valued by the operators, which will be an interesting measure to see how much wealth increased in Nebraska.

SENATOR SCHEER: Is there a way to determine...it's sort of interesting...I agree, I would have thought that as they get older they will start moving back to Nebraska. Is there any way to document how many of those who are moving back simply because family is back here as we age? You know, we retire, we've got income, and we're trying to avoid whatever taxes we can or climate that we want to be in. But as we start getting at whatever that point is, from yours it's 75, and the wife and health issues and other things will pull us back towards family. I'm just curious if there's a way to determine how many of those that are moving back to the state would have some family ties that perhaps are calling them back more than economics or anything else.

JERRY DEICHERT: I'm not aware of any current ongoing surveys that are large enough that do that. I mean, it would take something where you have a special survey where you do that to ask people. I'm not aware of anything that does that on a routine basis.

SENATOR SCHEER: Hmm.

JERRY DEICHERT: Anecdotally we know that's the case, but we just don't know what the numbers are. Then the next slide looks at for those same age groups and for, excuse me, for the same migration groups, but this is just for 55- to 64-year-olds. And you can see that people who left the state had the lowest amount of interest, rental, or that type of income; and people who stayed in the state had the most. But the people who left the state had the highest amount of retirement income. That's the blue bar in the middle. And when Social Security and retirement income are higher for people who move so obviously the people who stayed in the state were still working and weren't getting retirement for the most part. If you look at 65 to 74, you can see that the amounts vary very little by people who stayed in the state or people who left the state. Interest income was close to the same, retirement was close to the same, and Social Security was close to the same. And when we look at 75 and older, it's pretty much the same thing where the people who stay and people who move have pretty much the same incomes with the exception of 75 and older people who stayed in the state have more rental and interest income than people who moved either out of the state or into the state. And that I don't know why.

SENATOR SCHUMACHER: Would that be because if you own a farm, for example, you're going to have rental income?

JERRY DEICHERT: That could be, that could be part of it.

SENATOR SCHUMACHER: And you're much more anchored here than if you have stocks and bonds or something.

JERRY DEICHERT: That could be part of it, yes. There's no way of knowing specifically, but that's a reasonable...

SENATOR RIEPE: That rental check will cash in Arizona though too.

SENATOR SCHUMACHER: Some of them do.

JERRY DEICHERT: And then the next few slides look at the real detail on income. I don't know that I need to go over that, but I think the one you might want to look at is you look at this is for 55 to 64, you can see people...total person's earnings and that's either self-employment or wages and salary income. You can see that people who stayed in the state had more earnings than people who left the state. There was like $39,000 on average per person or the people who left was $33,000 on average per person. And look at the retirement income. It's not that much different for any of those...any of the other incomes don't vary that much. And it's the same way for people 65 to 74. The people who stay in Nebraska and Nebraskans who left have a lot of the same characteristics by incomes with the exception of those earnings. Nebraskans who stayed are more likely to be working than those who left or people who came into the state. And these numbers are average dollars per person in that age group. It's not per family, it's per person. So when you see the $12,000 Social Security, that's per person. And we have the same numbers for 75 and older. But, you know, the conclusion on that was we do lose people in their 50s, late 50s, early 60s and up to 74. And as you indicated, Senator, they come back. And it's about the same number coming in or leave. But the people who stay typically have higher incomes, higher interest income, and higher earnings than the people who leave. The next was looking at ag value by tenure of principal operator and looking at it in three different categories. There's owners and it's just own everything; there's part owners, they own some land and they lease some land; and then there's tenants and they only rent. And so those are the three categories we're looking at. And these are the numbers of farms. A little under 25,000--and this is in 2012 census of agriculture--were full owners; a little under 19,000 were part owners; and a little over 6,000 were tenants. And compare to ten years earlier, there were about 800 more full owners; almost...about 200 more part owners; and 300 fewer tenants. And I've got those specific numbers. I just pulled those off last night so I didn't get them on the slide, but I can get you the exact values if you're interested. But for the most part, the relative share didn't change much. Full owners and part owners increased slightly and tenants decreased slightly. If we look at the market value, this is the market value and this is by the operator who estimated the value so it's not an assessed valuation. It's not...or it's not come from some second or third source, it's the value estimated by the operator him or herself. So it's what they thought. And if you look at that total number, it was about $106 billion in 2012. In 2007, it was $16 billion. So you've been talking about increases in wealth went from $16 billion to $106 billion over that five-year time period. And again, that's not assessed valuation. It's self-identified valuation. If we look at the estimated value of land and buildings per farm by tenure, you can see that on average it's about $2 million per farm; but for full owners it was $840-some thousand; for part owners it was almost $4 million; and for tenants it was $2 million. And those numbers per farm have the same kind of pattern as it was for the total. So overall, the value in 2002 was about $200,000 per farm; in 2007 it was a little over $300,000; and then in 2012 it was over $2 million. So there was a substantial increase and those similar patterns went for all the other categories. And I will put this in a table and send it to all members afterwards so you have the specific numbers.

SENATOR SCHUMACHER: I'm wondering on the reason part owners is (inaudible) is because you have a successful operation where you own your own land and then as people retire and their children are no longer interested in farming you go out and rent the additional land in order to augment your farming operation. Is that why we see such a big jump in...?

JERRY DEICHERT: That would be a reasonable assumption. If you were interested, I can also find out the average size of farms in those categories if that would be useful. []

SENATOR SCHUMACHER: If that's easily available (inaudible). []

JERRY DEICHERT: Yeah. I mean and for those of you if you really want to get down into the weeds, I can send you the tables from the reports so you can look at all of the characteristics. And so just let me know after the meeting and I'll send you the links to the tables from the report so you can look and see quite a bit of detail on what they, how they look at that information. But that was...the assessed valuation doesn't, when we looked at that before, doesn't look like it reflects what the self-identified value was for ag land where it went from $16 billion to $106 billion in five years. Then the other items I don't know if you want me to...how much you want me to go over those, but one of the topics was how do we look at wealth. And there are some things that are on the tax returns and there's dividends, there's interest, a number of other things. But what I did and as an example is looked at taxable interest to show you that if that was kind of a measure of wealth that you wanted to look at and how that varied by county, I did that for I think it was the 2014 is out now, but I did that for 2013. And you can see that overall about a third of the returns had taxable interest and averaged $1,600 per return. And that varied considerably by county so Arthur County had the most returns with taxable income, and you can see most of the Sandhills counties were in the top numbers that had the percent with returns. And then you can see the returns that had lowest numbers of returns with taxable income were Dakota, Dawson, Thurston, Hall, Colfax and those are all counties that have a lot of meatpacking, a lot of minority population. And so you can see the difference in the characteristics of those counties. Then if you look at the counties by the highest percentage or highest return, interest per return, you can see that Cherry County had the highest average interest per return and Banner County and a lot of the Sandhills counties may have had a lot of returns with interest income, but it wasn't as high was many of the other counties. And we could do the same thing for dividends and other measures of wealth that are on that report if that was of interest. But again, there's really no good way of tying the wealth to the individual. So we don't have any individual characteristics other than the characteristics of the county.

SENATOR SCHUMACHER: One of the things and it was in a handout from the last meeting and is probably in everyone's packet if they want to go back and look at them if you weren't here, you were right, Senator Scheer, when you guesstimated the average net worth nationally number is around $200,000. But that is not a normal distribution. You have a low number of people with lots and lots of net worth and you've got quite a few people with very low net worth. So that's not a normal distribution there, but it was the average. If you look at averages, it was about $200,000.

JERRY DEICHERT: And I just included...this is the other measure that is from the Department of Revenue and this looks at assessed valuation. And just for interest, you can see that if you look at ag outbuildings, which was about $2 billion, and agricultural land which was about $93 billion, so that's $95 billion, $96 billion for 2015, while 2012 it was $106 billion on that census of agriculture. So you can see that maybe the assessment kind of caught up with what the valuation was. But I thought that was one way of looking and making the comparisons to see if people thought their value was worth or the land was worth what it was assessed. And I have some other items on there that I don't know that's going to be useful going over, but it's just other ways of measuring consumer or finances and wealth but it's all at the national level. And then I did bring those reports that I did in July. I didn't print anything off. If you had any specific questions on some demographic questions, I can go back and look at some of those numbers. But I didn't...since most of the members were here before, I didn't have a handout for that. But I can talk about it if you're interested.

SENATOR SCHUMACHER: Well, basically the bottom line, the trends there is for communities outside of the Omaha, Lincoln sphere to be losing population on a fairly predictable basis and the eastern area in the range of Omaha and Lincoln to be gaining population.

JERRY DEICHERT: And I'll just show that one slide that probably tells it the most. That's the county that...excuse me. This is the map that shows where the growth in the state has been and the white color is where we've had declining over the last 15 years. And as Senator Schumacher said, the counties that cluster eastern Nebraska around the metropolitan area, you've got the tri-cities, and we had Cheyenne County; but I would expect that Cheyenne County is no longer going to be one of the growing counties. And then the other indication that we had was...doesn't want to show...well, it was the slide that showed that the population for those nonmetropolitan counties is less now than it was in 1890. And so it shows that the population is getting concentrated in the state's most populous counties.

SENATOR SCHUMACHER: One observation, I don't know if there's any way to attach down to it, but I spent a lot of time the last couple of months, probably gone through about 60 different counties in rural Nebraska and go through a town and I could just take a loop around the town, get a sense of it. And a lot of them looking very, very depreciated as far as main street looks and the new homes. But where you sense a bit of life that it's not completely dwindling away, almost always you can identify some government function associated with it. County seats have got a little color left to them and maybe even a little more than that. You got communities like Curtis where you can define the university's ag testing station out there and/or maybe a power company situated. So oddly enough the ones that seem to have a little pep left you can identify a source of government funding or maybe a hospital where you know a lot of Medicaid money and things coming through. It's kind of interesting because there's a correlation between them looking a little bit healthier with some facility there. Jim.

SENATOR SCHEER: Well, I think one of...at least the most impactful that Jerry provided me was the graph showing the changes in population or the peak population of the counties and people talking about loss of population. But we talk about it as it's more a current phenomenon than, you know, gosh, (inaudible) lost some (inaudible). But when you look at them, a lot of it is well over a decade in the making (inaudible) continuous decline. And how...you know, to me then it becomes even harder. (Inaudible) solution to (inaudible) a long time ago. But when you have a decrease in population in some of those counties from 120 or 130 years trying to reverse that or bring population remodeling, that really does create a problem.

SENATOR SCHUMACHER: And a lot of those if you look at the population, the peak population is somewhere 1910, 1920 before the first tractors rolled out. You've got the Depression creating an anomaly in there that chase a lot of people out. But basically I think the population decline correlates pretty closely with the agricultural mechanization and efficiencies.

SENATOR SCHEER: Yeah.

JERRY DEICHERT: There were, in fact, there were 73 counties that had a depopulation prior to 1940 or 1940 or earlier.

SENATOR SCHUMACHER: Any other questions or words of wisdom? Jerry, I went to that conference you guys held in Omaha on demographics and census a month or so ago. And one tool that might be helpful for the committee to get exposure to is the tool that the census, federal census people had showing the Web site where you can trace where your construction workers, for example, are coming from and going to and where your...how we stand in retail, almost any category. They've got a very, very intensive graphing system. And you can actually say, where do we get our construction workers from and it will show you the states that we draw in and where do our construction workers go? And it is really a powerful tool and, you know, it takes some to really learn how to use it. But a demonstration of that would not be a bad idea if we can get it.

JERRY DEICHERT: And we can do that for the committee or we can do it for your staff, too, if you'd be interested.

SENATOR SCHUMACHER: Well, I think the committee should be exposed to that tool because it is really...she talked for about, oh, a half hour and, man, it just...you select what you want and boom, here it comes up and it's just an interesting tool.

JERRY DEICHERT: It also shows you the salaries differential, too, so you can see are we getting higher paid here or what it is. So would you like me to do that next month?

SENATOR SCHUMACHER: Yeah, that would be very helpful because I was really impressed. Most of that stuff is government jabber, but this was...it was helpful, it was interactive, and it looked like probably a little easy to use.

JERRY DEICHERT: We'll do that next month then.

SENATOR SCHEER: (Inaudible).

SENATOR SCHUMACHER: (Inaudible). Okay.

JERRY DEICHERT: Mike is standing up.

SENATOR SCHUMACHER: Okay, Mike. We've lost some members of our committee again and this...

MICHAEL CALVERT: I'm going to need a minute or two to repair the damages that Jerry has done to the laptop.

SENATOR SCHUMACHER: Oh, okay. All right. (Laugh)

MICHAEL CALVERT: Got to figure out where he is first of all. Peg, are you logged on to your ID here?

PEG JONES: I'm just logging out.

MICHAEL CALVERT: Well,...

SENATOR SCHUMACHER: Senator Stinner says that he will be right back. we have lost a couple members of our committee. We're down to Senator Watermeier, Scheer, Vargas, and Schumacher right now. I'm not sure if the others are coming back or....

MICHAEL CALVERT: Yeah, we're going to need a minute or two here. Okay. How many members of the committee went through our presentation last month? I know Senator...were you here, Senator Vargas?

SENATOR VARGAS: I was not here.

MICHAEL CALVERT: You were not. Okay. I might...

SENATOR SCHUMACHER: Senator Watermeier, you were here, weren't you?

SENATOR WATERMEIER: Yeah.

MICHAEL CALVERT: Right.

SENATOR SCHUMACHER: What I asked Mike to do as part of this--and this is kind of testing a new concept that maybe we could institutionalize if it works out well, if we learn anything--is to first of all look at the state budget long term, go out more than the usual two or four years that we do, do, and apply some trends to revenue. Let's make some assumptions that revenue is going to grow at what it's projected to now as, whatever, 4.5 percent. And what happens, what does the budget look like if it grows 5.5 (percent)? What does it look like if it grows 3.5? And they developed a really nice spreadsheet on that and you can see how a little change in revenue percentage affects those numbers and how quickly the effect is had. And then the other thing on the expenditure side, there's like three or four items that are big-ticket items and that chew up a good chunk of the budget, and to take those out over these next few sessions individually and say, okay, here's what the trendline has been on this expense, and so we can then apply some judgment, say: Do we expect the trendline to curve up? Do we expect that expense to fall down? And so we have some better feeling of where our long-term expenses are so we can make sure that on policy on a short-term Appropriations Committee two-, four-year perspective, we're not taking the wrong turn that will really get us into trouble down the road, after most of us are gone from here, except for maybe Senator Vargas, and have to deal with the problem. So, Mike, have you got your computer all charged up?

MICHAEL CALVERT: Yeah, I fixed all of Jerry's damage. Takes a while but I've got him figured out by now. For the record, Michael Calvert, Legislative Fiscal Analyst, last name spelled C-a-l-v-e-r-t. And with me is Tom Bergquist, deputy director of the Fiscal Office. Some months ago, when Senator Schumacher approached me, I asked Tom about this. And he's our spreadsheet guru, amongst many other things, and we talked about this. He put together this, what I would call a scenario building tool for purposes of the committee meeting last month and what we're doing here today. I was going to do something of a replay of what we had talked about, but I think I'm just going to touch on a few things and switch gears. Senator Vargas, for your information, essentially the mission was to build a scenario-building tool that went beyond our five-year financial status. Our five-year financial status right now goes to fiscal year '20-21.

SENATOR VARGAS: Uh-huh.

MICHAEL CALVERT: Okay? And what it does is it builds off of the biennial budget and then makes assumptions and adjustments on revenue and expenditure side with a scenario that's laid out in detail within our budget book, in just about everything we publish in fact, for the next two years. So it's kind of in anticipation of the next biennial budget cycle what might we be looking at. Personally, from my perspective, that's one of the better planning tools we have had for years. This is something we've done since the 1980s when we were doing annual budgets and we would do one additional year for purposes of planning. The premise here, though, is that if you start from that base period, the end result that you project in terms of, and primarily what I'm going to point to is, an ending balance that's projected as of '20-21 status. Our ending balance is projected, given the revenue and expenditure scenario that we built into the status, of an ending balance of about $481.8 million, and a structural balance--i.e., revenues exceed expenditures and appropriations and transfers--in that year of about $174.6 million. In other words, cash in exceeds cash out, okay, based on that scenario. Now it is based on the current year budget scenario, the current year appropriations estimates, the current year revenue estimates. And by the way, the Department of Revenue issued their press release and we're about $18 million behind on the current year revenue estimate for the first two months of the fiscal year. It's about 2.6 percent. So my point is that all of this is subject to change and that's why we go through these iterations, in terms of the Tax Rate Review Committee, revised budgets. We revise that five-year financial status scenario. So the projections that we're building here, the scenario that we're building here that goes out to...and I'm going to focus in on 2030-31 as kind of the endgame here, a ten-year period after the end of the biennial period in our financial status. The point is that these projections, the further out you go, are as solid as the quicksand on which they're built, i.e., there's going to be a lot of change between now and the next budget cycle that will influence the outcomes that we have here. But I think this is also a very important scenario-building exercise because it causes us all to think in terms of risks and opportunities and start integrating some of the other things that we know, or I think we know, and understand about the future. And we can start hypothesizing and testing things with respect to, is there a significant risk here that we should reasonably anticipate or are there some significant opportunities that we can reasonably anticipate? So the first scenario that we built here is a long-term financial status and Tom and I decided to refer to it as the simple status. And given the scenario that we laid out, there are certain key assumptions that drive the numbers. (Adjusts presentation display on screen.)

SENATOR WATERMEIER: Thank you.

MICHAEL CALVERT: Yeah.

SENATOR SCHUMACHER: That's better. (Laugh)

SENATOR WATERMEIER: Now I can read it.

MICHAEL CALVERT: Yeah, it works perfectly right here. I can see it just fine, but... (Laughter) I think maybe I'm going to ask for bigger TVs at some point in time because I can't see them either. Okay. Thank you. The scenario is built off of some assumptions with respect to General Fund revenue growth at just under...it rounds out to about 4.6 percent year over year. Transfers out, primarily what we're talking about is property tax credit. It is a transfer out of the General Fund and grows at 4 percent per year. Now, typically has that happened? No. It has just been a periodic adjustment in certain years, but this just assumes a straight-line, year-over-year change. General Fund appropriations grow at about 4 percent per year. Okay, where does that all come from? Well, if you look at the last year of the biennial period for our general...our five-year financial status, expenditures, about 4 percent. We have been hypothesizing that revenue growth into the future, adjusted for rate and base changes, will grow somewhere around 4.7-4.75 percent. So that is the basis for our assumptions that were highlighted here down at the bottom. And the 4 percent expenditure growth assumption here on appropriations, again, it tags, it dovetails back to the last year. And if you at the year before that, actually expenditure growth was substantially higher. Well, that is a year where we built into the General Fund financial status a scenario that said under current law school aid formula goes back and reverts to what it had been previously before the last change where we made it a more restrictive expenditure flow. So that is...those kinds of nuances can be modeled into the five-year status and a key important point in terms of projecting out another ten years, the scenario-building tool we have here is it's straight line. It doesn't account for those kinds of variabilities that in a shorter term financial status you can account for. So that's one caution you have to have in mind here as you look at these particular numbers. So if you just simply did that simple linear calculation, projected out into the future, theoretically that $481 million ending balance could grow to a $4.8 billion. And when you look at the variation between revenues and expenditures, the gap, actually you're running a positive. And it makes sense. I mean you're roughly talking about revenues exceeding expenditures by well over half a percentage point per year. As that compounds out into the future, that's how it's going to go. So, first key point: Relatively small differences can make a big difference over a period of time. It can explode into large numbers. Okay? So that is the simplified version and we can play with it if you want, but I think I'm going to forgo that because I think, Senator Schumacher, your emphasis is more on some of the more detailed items. Is that correct?

SENATOR SCHUMACHER: Right. But just for quickly here, change the 4.57 as ten. That ended up with a balance of, what,...

MICHAEL CALVERT: Right.

SENATOR SCHUMACHER: ...$700 million?

MICHAEL CALVERT: Well, that was a structural balance, i.e., revenues...

SENATOR SCHUMACHER: Okay.

MICHAEL CALVERT: ...exceeded expenditures by over $700 million in that last year.

SENATOR SCHUMACHER: Okay. Let's just change that to 3.5 percent...

MICHAEL CALVERT: Okay.

SENATOR SCHUMACHER: ...and see what happens.

MICHAEL CALVERT: So, ending balance goes from $481 (million) to $854 (million). You'll notice it grows through this time period here but then flips around, starts shrinking. And that is because the revenue versus appropriations, the structural balance, starts to turn negative. It gets progressively smaller. So the pace of revenue growth obviously becomes an important determinant as to how that scenario unfolds if you basically assume your expense obligations are going to continue to grow at 4 percent per year. Okay? Big "if." But again, a relatively small change on a year-over-year basis starts to equate to some rather large numbers.

SENATOR SCHUMACHER: We went from feeling rich to not so rich right now.

MICHAEL CALVERT: There you go. Yeah. Now there are some other...there's a number of fallacies here and I pointed out one in terms of this ending balance being...you can't think of that as an absolute. That's a guideline as to what we're anticipating given the current General Fund financial status for the next five years. That's going to change and you have to be aware of that. So that's going to influence all those future numbers. The other thing is, and I mentioned this at the last meeting, that this ending balance of $481 million and as you project into the future, one of the demands you're going to likely have to confront is that as of this point in time in '20-21 our projected Cash Reserve balance is about $370 million. We have drawn down some of the Cash Reserve balance for certain purposes, part of it as part of our budget balancing act this last biennial cycle. I suspect that we're probably still in that cycle where the Cash Reserve is likely going to be looked at as an asset draw to help balance the budget, but at some point in time you're going to have to start thinking recapitalizing that Cash Reserve Fund. And by the time you get out to the '20-21 time period, if you believe that a 16 percent of revenue guideline in terms of a General Fund...in terms of a Cash Reserve Fund balance is important, that's going to equate to, in that particular year, it's going to equate to over $800 and...about $850 million. But we're projecting at $370 (million). So that says between now and '20-21 you need to start thinking or anticipating growing the Cash Reserve Fund after we utilize some dollar amount probably this session.

SENATOR SCHUMACHER: Let's do one other thing before we move on.

MICHAEL CALVERT: Sure.

SENATOR SCHUMACHER: Can we insert, let's just knock $50 million off. Just say we missed that and that's $431 (million) instead of $481 (million), up where the box is around, and how that impacts that bottom line number.

MICHAEL CALVERT: Okay. What are we trying to change now?

SENATOR SCHUMACHER: Roll back up to where you were.

MICHAEL CALVERT: Okay.

SENATOR SCHUMACHER: Okay. Where the box is around $481 (million) for our ending balance,...

MICHAEL CALVERT: Right.

SENATOR SCHUMACHER: ...let's make that $431 (million), knock off $50 (million). Can we do that?

TOM BERGQUIST: No, (laugh) because it's all...I mean if you knock the ending balance off $50 (million) then your, in '20-21, your ending balance is still going to be $50 (million) less then.

SENATOR SCHUMACHER: Right, but I was curious. If we miss our mark now in this year and that ending balance that we're showing, expecting here at $481 (million) is high by $50 million, and things are rotten for the rest of the year. So what ripple effect do we see into the future? I don't know if this can do that or not...

MICHAEL CALVERT: Okay.

SENATOR SCHUMACHER: ...but that was a thought.

TOM BERGQUIST: Here...

MICHAEL CALVERT: Can I insert minus $50 million in that?

TOM BERGQUIST: Well, okay, if you're going to drop, if you're losing the ending balance, that means you're...are you losing it because of higher spending or lower revenue?

SENATOR SCHUMACHER: Don't know; it's just gone. I mean once...

TOM BERGQUIST: Well, you got to...it's either got to be a lot higher...

MICHAEL CALVERT: (Inaudible) other.

TOM BERGQUIST: ...lower revenues or higher spending to have the ending balance go (inaudible).

SENATOR SCHUMACHER: Well, let's assume revenue, because we're going to spend everything we've (inaudible).

TOM BERGQUIST: Right. Now if you lower revenue by $50 million, you can go over to the 5.333.

MICHAEL CALVERT: Yeah.

SENATOR SCHUMACHER: Yeah.

TOM BERGQUIST: And first of all, that's '18-19.

MICHAEL CALVERT: Yeah.

TOM BERGQUIST: You're talking about '16-17, right?

SENATOR SCHUMACHER: Yeah. Yeah. I'm just...

TOM BERGQUIST: So you want to go up to "D" right there.

MICHAEL CALVERT: And I can just put in minus $50 million in there, right? Will that work or is it going to screw up your spreadsheet?

TOM BERGQUIST: Well, it's linked to the status...

MICHAEL CALVERT: Yeah.

TOM BERGQUIST: ...over to another page.

SENATOR WATERMEIER: But really, that number is not going to have an accumulative effect. It's just negative $50 million (inaudible).

TOM BERGQUIST: Well, this is...the problem is this is linked to another page. If I lower the one year by $50 million, it's going to lower all the others by $50 (million)...

SENATOR WATERMEIER: Right.

TOM BERGQUIST: ...plus the growth number, so it would be cumulative $50 (million), $100 (million), $150 (million), $200 (million).

SENATOR SCHUMACHER: But if we lower that by $50 million, that '20 or that '30-31 number, for years 2030 to '31, that's going to change by a whole lot more than $50 million, isn't it, if we...?

TOM BERGQUIST: Well, yeah. If I lower the '16-17 revenue number by $50 million...

SENATOR SCHUMACHER: Yeah. That will ripple effect all the way through.

TOM BERGQUIST: Right. Then I'd be lowering the second year by $50 million plus 4.6 percent...

SENATOR SCHUMACHER: Okay.

TOM BERGQUIST: ...and that would just...right. So every year would be $50 million plus an inflated amount. So the cumulative effect would be $50 (million), $100 (million), $150 (million), $200 (million), $250 (million). So if it's 20 years, it would be $50 million times, just without the inflation, 20.

SENATOR SCHUMACHER: Yeah. But leaving all assumptions alone, when we hear, well, we're going to be down short $30 million in what we anticipated we were getting in, that translates into a significant impact ten years from now.

MICHAEL CALVERT: Oh, they're all linked. Ah!

TOM BERGQUIST: Right, these are, on this page, are all linked with the status. We'd have to go over to the status page and do it because then the next year's revenue growth is built off the previous one. It's not done right here but...

MICHAEL CALVERT: Yeah. I mean...let's see, we're talking 10, 14, 50, oh man. Yeah, it's going to be a big number.

SENATOR SCHUMACHER: So...

MICHAEL CALVERT: It's going to be $50-plus million each year because your base just...

SENATOR SCHUMACHER: So a sorry looking report from the Revenue Department of we were off by $50 million turns into a big number ten years from now.

MICHAEL CALVERT: Yeah, it compounds out.

TOM BERGQUIST: Assuming it doesn't get...$50 million doesn't come back in the cycle, which we tend to, and that's one of the tricky parts when you start doing a 30-year thing of changing something today, in '16-17, because it could get restored coming back the other way. I would go ahead and change this but it's...everything is so interlinked that I'm afraid if I try to go over and do it, it's going to end up blowing it up.

SENATOR SCHUMACHER: As long as we've got the general concept of that ripple effect (inaudible) out.

TOM BERGQUIST: Right. Yeah. It would be $50 million per year, compounded, so $50 (million), $100 (million), $150 (million).

MICHAEL CALVERT: Let me ask you this. Would you be comfortable if in that last year, I mean basically one, two, three, four, five, five years at $50 million a pop, you knock off $250 (million) here.

TOM BERGQUIST: Well, you'd have to (inaudible) each one of them.

SENATOR VARGAS: Don't do it (inaudible).

SENATOR SCHUMACHER: Let's not get too (inaudible).

MICHAEL CALVERT: Oh, I see (inaudible).

TOM BERGQUIST: Because one year is linked...

MICHAEL CALVERT: Gotcha.

TOM BERGQUIST: ...but you're changing it where it's not linked.

MICHAEL CALVERT: Gotcha.

SENATOR SCHUMACHER: Senator Vargas has a comment.

SENATOR VARGAS: Thank you very much, Chairman Schumacher.

MICHAEL CALVERT: Yes, a technical barrier, we'll call it that.

SENATOR VARGAS: It is a good question because I'm curious as to what tools we have. If we're looking at, let's say, the last ten years of fluctuations from expected versus actuals,...

MICHAEL CALVERT: Uh-huh.

SENATOR VARGAS: ...if there's a way to model that into the next ten years.

MICHAEL CALVERT: Sure.

SENATOR VARGAS: If that were to continue to happen in this...

MICHAEL CALVERT: I mean that's the basis...

SENATOR VARGAS: Do we have that? Is that...?

MICHAEL CALVERT: Absolutely.

SENATOR VARGAS: Okay. Okay.

MICHAEL CALVERT: For example, we've got a long history of revenue growth year over year, both on a nominal, i.e., what the actual revenue was collected over the prior year, and on a rate and base adjusted. Rate and base adjusted is important because as you project into the future you're assuming there's no rate...there's no tax rate changes or increases in our financial status, okay? It's a matter of you enacting laws that make those kind of changes that we can model them in. So historically we have a sense of those paths. And you're exactly right. I mean we have a cyclical pattern that is at least apparent to us with respect to revenue growth and a cyclical pattern with respect to forecasting errors. Two different things, okay? Both become very important as...well, they become important but they really complicate this effort to try and project ten years beyond our financial status. Because now the variability in terms of revenue growth you can model in, there's a cyclical pattern where we tend to grow at a rate below a long-run average and then there's a period of time where we tend to grow about it. And, yeah, you can force this into the scenario building, but we're aware of that and, in fact, part of the material that we include in our budget documents look, show, and display that past history. And we're in a cycle now where revenue growth is relatively low and you have forecasting error where your forecasts tend to overestimate at the same time period. That has been part of the disclosure that the Appropriations Committee has included in their budget book so, yes, that sort of thing is there and becomes very relevant in any kind of a planning activity, very relevant if you assume those patterns are going to continue.

SENATOR VARGAS: And it's just helpful. I imagine if we are going to move to some action or planning that we prepare for the worst from what's happened recently because if they're reoccurring trends, I mean, I know we have to think best-case scenario.

MICHAEL CALVERT: And the hard part of all of that in our experience is that you always have a tendency to believe whatever is happening right now is going to continue and it's not going to change. But one of the reasons we have done this sort of thing, looking at past history, is that it does change. And, I mean, we've seen four or five cycles. Now is that enough observations to tell you that you've really got on to something here? I don't know. But the suggestion is that this is a pattern that you can see in past history and it seems to tell us that we're on that down cycle for whatever reason right now and it may last another year or so or it may be--Senator Schumacher, I think I'll quote you--a new normal. It represents a new normal.

SENATOR SCHUMACHER: And that...in a lot of the discussion you and I have had over the years has been how much can you rely on the pre-2008 numbers and patterns, because I think that we've moved into a different economic situation due to a lot of reasons. And so the weight given to those things in the past probably should be diminished. And this is...these kind of tools, regardless of what your previous position is, you begin to be able to do I think what you're doing--a little bit of a risk assessment. How much do we want to bet on that number being 4.57 percent, you know? Could it be 3 percent? What does it look like? Jim.

SENATOR SCHEER: How does this work? I haven't been here, I've only been here for four or five years, so I don't have the institutional knowledge that you have. But in the experience that I've noticed in the last five years when we've had excess, the Legislature, in some cases, has reduced some things but we've spent more money. And so, you know, it's...and a lot of that expenditure is ongoing so it compounds itself. So how do those numbers translate? And then all of a sudden if we start going lower, we still haven't, even in our last budget, we didn't reduce as much as...to meet the level that we have income coming. So that's going to continue to pull us down. And how long that lasts, because our official numbers we pick and (inaudible)...

MICHAEL CALVERT: Sure.

SENATOR SCHEER: ...whatever we want. But if the Legislature historically has always sort of used up or used a lot of the surplus up during the good years, it just puts additional added pressure on during those slim years.

MICHAEL CALVERT: A fair amount of the surplus, and this I would characterize as a true surplus, actually is saved in that that surplus more often than not is generated from revenue results that have exceeded the revenue estimate that was operative in the most recent year. By law there is an automatic transfer from the General Fund to the Cash Reserve Fund, so it's an enforced savings account, okay? Now as the revenue picture changes in the near term, the future term, it may show higher, you know, revised forecasts upwards and, i.e., additional spending may occur. Other actions may occur and that is at the discretion of the Legislature. We try and take all of those sort...those kinds of changes we try and take into account. I mentioned, for example, on the expenditure side, there were some changes with respect to the school aid formula just last session. But back-loaded into a future year was, in effect, a return of the formula to a more prereduction formula configuration. You'll see a jump in the appropriations in, was it, '19-20, about 6 percent. That's in part driven by we factored that into the planning process. That's a known in law. You can do that sort of thing in terms of the things that are in law. They're back-loaded as far as revenue. So we try and account for those things and it's one of the reasons why the Tax Rate Review Committee meets twice a year. We revise budgets midbiennium. We revise revenue forecasts periodically. So it is kind of an iterative process to try and account for those sorts of things. Some of these things are going to occur just because it is the will of the Legislature to make whatever changes to accommodate and to fit the financial scenario that we present. I can't tell you it's right, wrong, or indifferent. Just that's your prerogative.

SENATOR SCHUMACHER: Part of the reason for trying to develop some type of tool is so when the decision time comes, do we do this or that, that will affect the big picture, what ripple effect does it cause down...or is it just neutral? So, you know, we're trying to figure out how to develop a tool here to bridge, so we can analyze individually in a short-term basis what impact it might have.

TOM BERGQUIST: The comment I want to make, two different things: One, when you were talking about variability, we went back and looked at forecasts on sine die, which was when we finalized a budget, whether it was the second year of a biennium or the first year. Fourteen to eighteen months later what was the actual receipts? Up till two years ago, over a 33-year period, we were off $6 million cumulative out of 32 years, 33 years. The average was probably $100-and-some million per year up or down. The reason I make that comment is over a long period of time we're probably going to be pretty close. We're going to end up two years where we're going to be $100 million less. There are going to be two years where we're $170 million more. It's going to go like this, but over the long run it was actually really pretty close. Where that comes back to what Mike was talking about, the reason you look at that is the Cash Reserve Fund is financed by where it's above certified, and certified is on sine die. So in those gyrations where revenues come in way above the forecast, that goes to the Cash Reserve Fund. One of our comments was, how big should the Cash Reserve Fund be? You always kind of joked is that it will tell you how big it needs to be, because every time we're above forecasts and money goes in, we know there's going to be another point in time, we don't know when, it's going to go the other way. So if we're pouring money in three years in a row at 200 million bucks a year and it gets up to $800 (million), $900 million, that's probably telling us that sometime in the next three to five years it's going to go, we're going to need all of that. So it will kind of tell you where it needs to go. The question is what our tolerant level is of how big that should be. The other question I want to point out here was in terms of the long term, the 4 percent on the spending is really pretty much based on where we're at right now, what it looks like, our mix of revenue, spending, those kinds of things. So in the long run the real key then is going to be the revenue number. We're going to have some fluctuations on the spending side. Now what's that revenue number going to be? If that revenue number is 4 percent then we're going to be in pretty good shape into the near future. The question is will it drop below that over the long term. One of the issues that was always...we actually had a...what was our elasticity...

MICHAEL CALVERT: On personal income?

TOM BERGQUIST: ...of our tax system returns?

MICHAEL CALVERT: On personal income our...how personal income grows vis-a-vis personal...how personal income taxes grow vis-a-vis how personal income grows, there's a relationship, okay? And because it is a modestly progressive individual income tax system, theoretically personal income tax revenue grows a little bit faster than personal income, but it's very, very small. It's about a 1.1 ratio, okay?

SENATOR SCHUMACHER: Is that after we pulled out the...or put in the automatic adjustment?

MICHAEL CALVERT: That's a very good question.

SENATOR SCHUMACHER: Okay.

TOM BERGQUIST: Why is kind of getting to why you were...

MICHAEL CALVERT: Yeah.

TOM BERGQUIST: ...at 4.6 percent rather than ten years ago it was 5.5 percent.

MICHAEL CALVERT: Yeah. Well, and I'll give you an example. When I first came here and the state individual income tax was directly linked to the federal, which meant you adopted effectively the brackets of the federal, the income elasticity was 1.7. In other words, it was a very dramatic growth rate in terms of personal income over and above personal...personal income tax over and above personal income growth. It has gone down to about 1.1. You've got fewer brackets. You don't have anywhere near the bracket creep you did when you were linked to the federal system, which had, God, it was more than ten brackets if I recall correctly. You adopted that structure. So the responsiveness to personal income is a lot lower. And you raise a very good question with the indexing. And it has been in place, what, about four years now? I don't have a good grasp of that but we did change our assumptions in terms of future growth rate on bottom...total bottom line revenue and personal income to less than 5 percent. Where we've been somewhere right around 4.95 percent year-over-year growth rate and based, we're saying more like 4.7. It's in large part because of that change in the individual income. And it might be something more than that. I don't know. Jury is out on that one.

TOM BERGQUIST: Sales tax always had a negative elasticity, meaning if personal income went up 4 percent, sales tax would go up less because income would go to nontaxable items.

MICHAEL CALVERT: Yeah.

TOM BERGQUIST: Individual was always a positive because you had bracket creep and other things. We've kind of gotten rid of that positive elasticity. I think on sales tax elasticity is probably getting less because more personal income is going to nontaxable items. Now part of that could be Internet sales escapes. Personally, I think an awful lot of it is health insurance premiums. That's disposable income that's not going to taxable items. It's going to nontaxable items. I think that's kind of a hidden thing there.

MICHAEL CALVERT: I put up on the screen the bottom line section. I went to our more complicated version whereas we had on the simplified version our detailed version expands what we had was a bottom line growth rate on revenue, we broke, it was broken down. Tom broke this down into sales: individual, corporate, miscellaneous. So now you can start playing with individual tax types. And one of the things I started doing--I don't have the notes with me, Senator Schumacher--was is the very question you were talking about with respect to growth rates maybe looking different in a more recent time period. I'm going to just take a look in the last eight to ten years and take a look at the averages and see how they play out here. I suspect it will be something a little bit different. But the problem you run into in those kind of time periods is any one year or two, most recently, will very much change those averages. So you've got to be a little bit careful about what you're doing there. But this does give you some flexibility to play with different types of tax growth. Likewise, you can play with the transfer out. By the way, all of the...the highlighting probably doesn't show up very well up there, but the highlighted ones are fields that we can change the percentage. And there are some expenditure items. These are, again, taken similar to what we use in our financial status. It doesn't have all of them. But you can change special ed. You can change aid to ESUs, homestead, personal property tax relief, community colleges, and so on, so forth. But more importantly, Tom broke down school aid into some component parts. School disbursement is 4 percent. That's a straight-line percentage that's embedded into the simulation. Property valuations assessed, 3.5 percent. And there's a note here, it is 3.5 percent overall. It's roughly 5 percent residential, 4 percent C&I,...

TOM BERGQUIST: Commercial and Industrial.

MICHAEL CALVERT: ...oh, commercial and industrial, duh; and 2 percent on ag land, okay? Medicaid, and this one might be an important one that there has been discussion with respect to federal funding. Right now it's embedded in our scenario at 4.5 percent. Changes to Medicaid conceivably at the federal level, so federal policies to some extent can start being modeled in. Let's say there is a phase-in to a lower percentage and a cap--2 percent. Now you can model that in and see how that changes the flows. The way we've got it set up is it essentially says that if the federal funds were capped at 2 percent, I think the state picks up the difference is the way the scenario was built. So that can have a pretty dramatic effect, especially if you extend that out into ten years.

SENATOR SCHUMACHER: Can we do that?

MICHAEL CALVERT: Sure, we can do that right now.

SENATOR SCHUMACHER: Can we just plug that number in for the heck of it?

MICHAEL CALVERT: Okay. Let's take...get our benchmark here. Ending balance is...and in round numbers this is going to compare to the simplified sheet: $4.6 billion, $682 million. Let's change this.

SENATOR SCHUMACHER: Federal then at 2 percent.

MICHAEL CALVERT: Yeah. Change the federal to 2 (percent).

TOM BERGQUIST: What this would be similar is if you went to a block grant and capped it at 2 percent per year increase, let's say for example, so that...the total Medicaid spending would still continue at 4.5 (percent) but the federal funds would be capped at, let's say, a 2 percent growth.

MICHAEL CALVERT: Okay. The interesting thing is that when you change it to 2 (percent), our original benchmark when the federal was at 4.5 (percent), our Medicaid General Fund growth was 4.5 percent year over year. If you freeze the federal at 2 (percent), General Fund average jumps to 6.9 percent. So as you can well imagine, ending balance substantially smaller, revenue versus appropriations--we were at, what, $600-and-some million--at $232 (million). So that's a pretty dramatic switch just on that one change.

SENATOR SCHUMACHER: And that kind of gets back to Senator Vargas' issue: How much risk tolerance do we have? And the only way we can protect against those kind of things is a big Cash Reserve.

MICHAEL CALVERT: It can be.

TOM BERGQUIST: Well, even that won't.

SENATOR SCHUMACHER: Won't take that on, yeah.

TOM BERGQUIST: Because that's going to be a temporary on the Cash Reserve Fund. You can only live off that for so long.

MICHAEL CALVERT: Yes.

SENATOR SCHUMACHER: Yeah. Yeah.

TOM BERGQUIST: What we're talking about, these kinds of things is if that 4 percent spending growth gets off that long-term revenue line.

MICHAEL CALVERT: Yeah.

TOM BERGQUIST: That's where it really starts hitting. We've actually been fortunate in that 4.5 percent is now what I'm using on Medicaid number. We didn't have to go back that far where we were using 8 and there was a point where we were using 10. It's really flattened out in the last five, six years, especially on monthly eligibility has really flattened out quite a bit. We haven't had a whole lot on there.

MICHAEL CALVERT: The other thing,...

TOM BERGQUIST: So that's been fortunate. I don't know how long that will continue to last.

MICHAEL CALVERT: Yeah. And the other thing that's worthy of note particularly, federal fund. If you change federal funds 2 percent, okay, and as I pointed out Medicaid on the General Fund side, if it picks up the difference, grows at 6.9 percent year over year, what happens is that in '18-19 the percent of the total Medicaid General Funding--about 40 percent--in that scenario it spikes up to 60 (percent). And one of the things you need to park in the back of your mind...well, you just need to be aware of is that growth rates on individual items, particularly if they are large ones, like Medicaid or school aid, can dramatically influence the total growth rate on the bottom line of the General Fund. So if you have in your mind a target of 4 percent year-over-year growth on General Fund expenditures, if you have a blow up on Medicaid or some other large program area over a period of time, achieving that 4 percent cap, if you will, becomes really, really difficult because you have certain large components that are growing in large dollar amounts and they're starting to blow up the bottom line.

SENATOR SCHUMACHER: And that 4 percent is kind of a trendline but we do have the problem with bunches of baby boomers may be drawing down more Medicaid and old age assistance.

MICHAEL CALVERT: That's a possibility, true.

SENATOR SCHUMACHER: And that curves up. So regardless of what the feds do, that number is going to change.

MICHAEL CALVERT: And that's one of the things that Tom and I have talked about, is that he suggests...what we've talked about is that we've disaggregated Medicaid in terms of General Fund-federal fund share. But you could actually start doing some more finite breakdowns in terms of which populations are being served because the cost consequence depending upon the population is different, whether it be aged or children. But I will caution you, keep your expectations reasonable if you choose to pursue this because when we start doing that kind of a drill down, this gets massively complicated very, very quickly. You can do some of this stuff on a short-term basis on a three- to five-year financial status, and that's what we try and do. You start rolling that out into a ten-year future, trying to anticipate cyclical patterns, try and anticipate the timing of forecasting errors, this becomes really, really difficult.

SENATOR SCHUMACHER: That's why we're paid the big bucks.

MICHAEL CALVERT: Oh, I see. Okay. (Laughter) I wasn't aware of that. Okay.

SENATOR SCHEER: And where's that revenue increase (inaudible)?

SENATOR SCHUMACHER: What was that, Jim?

SENATOR SCHEER: (Inaudible) you know, expenditure growth (inaudible).

SENATOR VARGAS: I know that is.

SENATOR SCHUMACHER: Yeah.

MICHAEL CALVERT: So this is an evolutionary thing we're in. We try to be responsive to your interests, Senator, and the committee's, hopefully. You know, the last take away that I had was I agree with you in terms of the Cash Reserve Fund. That's one of your best hedges that you have in the toolkit right now. And there is a fallacy in how we build that. We anticipate essentially revenues to exceed estimates in certain years. And by law those are transferred to the Cash Reserve Fund. That's how you capitalize by law the Cash Reserve Fund right now automatically. But what happens if we run into a four- or five-year period where we're actually spot-on on forecasts? You're not going to park a dime under that automatic statute. Now maybe the reverse is going to be a relatively moderate situation too. I don't know. But if it isn't, you might need to start thinking about what has to be done to anticipate that possibility that you can't automatically recapitalize the Cash Reserve Fund and to what extent should you plan for and anticipate proactive deposits in lieu of that automatic structure if it doesn't work. You just need to kind of think about that possibility.

SENATOR SCHUMACHER: (Inaudible) touch base with the members of the committee that are here, and I wish more were here, is this a valuable exercise or am I...?

SENATOR WATERMEIER: Yeah, it's good. It's good.

SENATOR SCHUMACHER: Is trying to develop this tool something we want to do?

SENATOR SCHEER: Oh, yeah. It's better than what we have, so.

SENATOR SCHUMACHER: Senator Vargas.

SENATOR VARGAS: I know, Senator Watermeier, you could probably speak to this, we had conversations in Appropriations about contingency planning for looking at federal funds, what's going to happen. Looking at federal funds, which ones will exhaust themselves, what we have to think and forecast. I know that was something that Senator Stinner (inaudible) as well. I was just also thinking how we can as much as possible think about contingency planning using some of this modeling (inaudible) risk assessment. I mean for institutional knowledge purposes, I don't know how to codify or create some...that's what this is always thinking. I'm like we're not going to be here at some point so how do we make sure that the next Legislative Planning Committee doesn't have this same conversation and looks at this data and be like, man, I wish I had this (laugh) and what we would need to put into place. That's just a question mark I have in my head. If something is going to come out any of this, and I don't know what it is, but maybe it is a modeling tool. Maybe it's training for our senators to look at what the last sort of ten-year economic forecasts looked like. Yeah, I was talking, Senator Stinner, I was talking about our potential contingency planning with some of our federal funds...and how we can utilize that idea to risk assessment contingency planning for our entire budget and revenue, you know, scenario.

SENATOR STINNER: It's hot.

SENATOR VARGAS: No, you don't have to answer that. I was just saying...

SENATOR STINNER: It's hot out there. (Laugh)

SENATOR SCHUMACHER: It's hot out there? One...I saw one document that might suggest how this might be influenced and it will be interesting to see when the tax proposal is rolled out in Washington, but it suggested that one of the ways a new, modern, federal taxing might go, or at least there's arguments being made by someone pushed that way, is to exclude certain kinds of income from federal adjusted gross income and, you know, you exclude from your federal adjusted gross income half of your business profits or something. That automatically changes the baseline that we start for our taxes. So if suddenly I am making a half a million dollars off of my small business and I get to exclude half of it from...because of this tax change in Washington, I now only have to pay Nebraska income tax on a quarter of a million dollars of my small income.

SENATOR STINNER: You just need to adjust your form back to put that number back in.

SENATOR SCHUMACHER: Yeah, but that takes 33 votes. And that's...it will be very interesting to watch those numbers or watch that proposal to see whether or not the knack they finally take is to not reduce tax rates but reduce what you call federal adjusted gross income which a lot of states, including Nebraska, has as their starting number on their calculations.

MICHAEL CALVERT: And to the extent that some of these things are phased in and out on the horizon, you know, hopefully that some things, they fall within the time frame of where we do our normal financial status, and that's great. Again, I think that's a wonderful planning tool that the Legislature has. But some of these things are going to start going out further out into the horizon as they get phased in, potentially. So then now to the degree that we can tweak this and make changes to be more responsive to specifics, then you can start modeling some of those sorts of things in.

SENATOR SCHUMACHER: Have you shared any of this with Senator Stinner as far as some of the capacity of what we've done so far?

MICHAEL CALVERT: No.

SENATOR SCHUMACHER: Maybe let's just go backup a step and to the Medicaid step. Plug 4 (percent) back in and just show what the tool here does.

MICHAEL CALVERT: Okay. For example, Senator Stinner, one of the things, what we've done is we've done some projections on a straight-line basis, very simplistic growth patterns in the financial status, built off of the financial status. Then we've got them, in the spreadsheet, we've built in some things that we treat as variables. You can change the revenue growth rate for sales, individual, corporate, miscellaneous, transfers, which is primarily property tax credit. But then some of the expenditure items that we typically do in our two-year...the two years in our out year financial status, so we have those in there. But the one we did very quickly, for example, Medicaid, in terms of federal funds cost share 4.5 percent, Medicaid total 4.5 percent. You see General Fund share for Medicaid is 40 percent here. You go up to '38-39, we're still at 40 percent. Okay, what happens if you change Medicaid 2.5 (percent).

SENATOR SCHUMACHER: Show the bottom line first on...

MICHAEL CALVERT: Oh, yeah.

SENATOR SCHUMACHER: ...up on top (inaudible) base line.

MICHAEL CALVERT: Good point. Okay.

SENATOR SCHUMACHER: I screwed you up.

MICHAEL CALVERT: Oh, yeah, you just...that's fine.

SENATOR SCHUMACHER: You know I'm good at that.

MICHAEL CALVERT: I'll go back to the start. Okay. At 4.5 percent, the bottom lines we're kind of using as a benchmark. And, again, this is built off of the status that ends in '20-21. It says, given the scenario, conceivably your ending balance grows to $4.6 billion. Again, this is all straight-line stuff. It's not necessarily a dose of reality. And then revenues exceed appropriations by $682 million in that year, '30-31. If you make one single change to Medicaid federal funds, you change that to a 2 percent, and that is based off of some of the conversations we've heard from Washington that there may be a cap on federal fund growth, Medicaid and then General Funds pick up the difference. Instead of 4.5 percent year-over-year growth, you're expenditures grow to 6.9 (percent). Your General Fund share of total Medicaid goes from 40 percent to 60 percent and your bottom lines, we were at, in terms of a structural balance, we were at $680-plus million positive. It drops down to $232 (million) and the surplusage, if you would, in terms of a balance is cut in half roughly. So that one change compounded out over ten years beyond our financial status period has a fairly dramatic impact, okay?

TOM BERGQUIST: One of the tricky parts, too, I under...a lot of times they talk about if they go to a block grant the states will get more flexibility. Okay. So that may not necessarily change this scenario. Because we could be at $850 million and we could get flexibility to change the program to knock Medicaid down to $800 million. Okay. That changes where the line is but the slope doesn't change. So you might get flexibility to change the program in a conversion to a block grant, and that will change where your starting point line is. But at that point, it will still grow at 4.5 percent from that lower level. And if they cap revenue reimbursement at 2 percent, this scenario can still occur even if you get some flexibility,which basically your first year decide whether I'm at $850 (million) or $800 (million) or whatever level. But the slope of the line is still going to stay the same. So I'm just saying this scenario could still occur even if we have flexibility to alter the programs.

SENATOR SCHUMACHER: Senator Stinner.

SENATOR STINNER: I think we ought to also recognize, along with what Tom has to say, is that utilization rate drives a lot of this thing. So we could hold rates absolutely flat but the utilization goes up. And if you look at our reimbursement rate, we were at 51, now we're around 52. That's all-time lows for the state of Nebraska in terms of reimbursement by the federal government. If we went back and assumed 50...I think our average is 56, 58, and 58 sticks in my mind, doesn't sound right when I said it, but maybe 56, the gap is about $300 million between that reimbursement rate. So depending on where you start with the block grant,...

MICHAEL CALVERT: Right.

SENATOR STINNER: ...if it's at this reduced level, we assume some kind of normalcy from the utilization side of things, it could really kind of send your numbers.

MICHAEL CALVERT: Yeah. And I just highlighted one of the notes here on Medicaid total: 2 percent eligibility and utilization; 2.5 percent provider rate.

SENATOR STINNER: Yeah.

MICHAEL CALVERT: One of the things that we've talked about is, and keep in mind this becomes very, very complex very, very quickly, but you can further disaggregate Medicaid and start isolating on populations, children versus elderly, and the cost configuration is different. You can start making changes with respect to eligibility utilization. We've chosen to do that on a global basis and use it as a note disclosure, but I suppose you could probably build in that kind of flexibility. But again, now it's getting really complicated. But, yes, those are very good points and this kind of thing helps you start thinking about that and talking about, okay, a different eligibility or a different utilization profile starts changing those numbers pretty dramatically.

TOM BERGQUIST: I think the key on this thing is...on the long term is in a normal year, whatever normal might mean, can we balance our budget in a normal year? If that spending growth is 5 percent in a normal year and the revenue growth is 4 percent, then our current structure can't even balance the budget in a normal year let alone in a cyclical. Then you're only talking about being able to balance when you're in a good year.

SENATOR STINNER: Well, then you have to start picking priorities out and all of a sudden some of the things that you're financing today won't be financed because it will be crowded out.

TOM BERGQUIST: Right. But then in a long-term period then every two-year biennial budget I'm back doing the same thing.

SENATOR STINNER: Right.

TOM BERGQUIST: If I got 4...5 percent spending and 4 percent revenue in the biennial budget, I'm 2 percent short and I have to make changes to balance the budget. Two years later I'm back finding another 2 percent, and two years after that another 2 percent. So that's where that long-term...the structural, where right now we're actually semi-okay but it doesn't take much to alter that.

MICHAEL CALVERT: And I guess the last thing I'd say is I think this is a useful tool in terms of sensitivity analysis. Is it absolute? No, it can't be. That's why we build budgets every two, you know, at least every two years to reconfigure and readjust to the more known set of circumstances that we're dealing with. And I use the word "notchy." There's a lot of "notchiness" in revenues and there's a lot of "notchiness" in expenditures and they don't always match up very well. And you're going to have some years where you're flush in revenue and your expenditures are down and vice versa, and that is the big complicating factor. And predicting those sorts of things and anticipating those sorts of things is why you need every single year and session and you make a budget every two years and you revise it every other year. It's a good tool and it gives us an opportunity to kind of investigate and look at some things that might be heading our way.

SENATOR SCHUMACHER: But part of the complication is we have a real difficult time trying to adjust our tax rates, if we have to adjust them up, because 33 votes to adjust a tax rate up probably isn't going to be there unless there's a real mess. And so you then start to have to squeeze down on the spending side and what...how do you do that? Senator Stinner, we had a bit of a discussion before you got back. Do you think--and this is kind of a novel road that we're poking around here for the Planning Committee--is this useful? Is this kind of trying to develop a tool useful from the Appropriations Committee's perspective and also useful to spread the knowledge and spread the consciousness about these issues to people who maybe aren't on the Appropriations Committee but have been selected for the Planning Committee?

SENATOR STINNER: Anything that...and I guess Mike talked about maybe adding different components because of cost structures into this might be even more helpful. Don't want to get too complex, but...

MICHAEL CALVERT: Yeah.

SENATOR STINNER: ...but I think maybe a little bit of modifications here and there and tweak here and there, anything like that is truly helpful. It helps us to explain what we do in Appropriations, because we do get into the weeds quite a little bit on these programs. But then we've got to bring this budget to the floor and try to explain some of our decisions. So, yes, it would be.

TOM BERGQUIST: Senator, one thing that you'll find that's very difficult is that long list of those variables on the expenditure side. If you want that 4 percent number to drop to 3 (percent), it is quite a challenge to go through that list and alter any of those assumptions to get that 4 down to 3. As you can do that in some of the areas, one of the things I've found is how big it is of the budget. The portion of the budget is almost as important, if not more important, than how fast something is growing.

SENATOR STINNER: Yeah, you cut TEEOSA a couple percent then.

TOM BERGQUIST: I used to explain to people, and it's kind of weird, that I could have a budget grow from 3 percent to 5 percent to 7 percent annual growth and not one single item in that budget grows at any different rate. And I'll use the example if I've got two things and I start out and one thing is growing at 10 percent and the other is growing at zero, and the thing growing at 10 percent is 30 percent of my budget, the thing growing at zero is 70 percent of my budget, my budget growth is 3 percent, my total. But if that item that's growing at 10 percent and the other part is at zero, it doesn't take long before that item growing at 10 percent is now 50 percent of my budget. Now when that's 50 percent of my budget growing at 10 percent, the other half is zero, now my budget growth is 5 percent. And if that keeps going, pretty soon that item that used to be 30 percent of my budget growing at 10 (percent) is now 70 percent, and that's 70 percent of the budget growing at 10 (percent) and the other 30 percent at zero. I'm now 7 (percent). I have gone from a 3 percent spending growth to a 7 percent spending growth and not one single item inside that budget has changed in terms of spending growth, only the proportion of the total. And the reason I mention that is in the 42 years I've been here I think I've almost seen that. When I first started, the portion of the budget...and, frankly, that's what happened with Medicaid. You know, we used to have plenty of money for A bills every year. That was because our portion of the budget growing the fastest was relatively small. So anyway, I'm just going to mention that because that's also in that exercise. You can go through some items, say, well, I'm going to freeze this or I'm going to freeze this. Well, it doesn't...it doesn't move that 4 percent needle at all. But the item that grows that needle makes a big difference. So that...it sounds simple to say, well, just lower that spending growth from 4 to 3, but when you go through those items by item, it's really (laugh) it's really hard. I can't just lower Medicaid. I have to decide is eligibility going to go down or is rate? Or I don't just change TEEOSA because its spending growth or...I mean, you have to change any of those assumptions to make it alter.

SENATOR SCHUMACHER: And where the tricky, at least my perspective, where the tricky stuff is, if you look at Medicaid and you say, do we anticipate us trucking along with a level rate of growth, the same growth on Medicaid, or is there some event that we are, because of the demographics, reasonably certain is going to occur that's going to make that rate go up? Well, that's got to figure into that, same way with TEEOSA. Is everything going to truck along at an average rate in TEEOSA growth or is there something out there that's going to make our spending on education go down or up? And you take a couple of those big numbers and you have a factor because largely of changing demographics, whether it's lower income people needing their kids educated or whether it's old people needing help in the nursing home, boy, that has a big effect on that budget.

SENATOR STINNER: You know that reminds me of just this current budget fight. They said, well, we did...we're flat. We never cut anything. But if you take TEEOSA that went up $60 million, if you took the wage increases that we granted, then that whole column we did in gross dollars go up in that. That had to be offset by cuts in the other parts of the budget. Some of these other parts of the budget were small and took some fairly substantial hits. So I tried to explain that a couple times but I don't think I was very successful.

SENATOR VARGAS: Didn't hit as (inaudible) good point. Our demographics are changing so there is a period that that's going to impact our Medicaid population, which is growing. Our poverty population is growing. Our diversity in the state is growing. (Inaudible) impact all of us. It's already happening.

SENATOR SCHUMACHER: Well, that's why we're paid the big bucks. Any other thoughts? Any reaction? Is this something you want to spend some time on, on each one of these meetings? Do we need any more demographic information? We're off into a track that's not quite traditional for the Planning Committee because basically we're just soaking up information. This is somewhat an effort to try to lay out a topography for policy down the road, which I think is our role. All right. Anybody want to...?

SENATOR VARGAS: One last: If we, based on the population conversations we've had, right, and the changing demographics, if we're able to model based off of that what we expect to be some of our increases and some of our largest percentage expenditures, that, I'm talking just for me, seems like it would be the most helpful. We're making assumptions not on demographics in this modeling. We're making assumptions based off of relative growth or...I just don't know how often we do that with this (inaudible).

MICHAEL CALVERT: Well, we'll need to spend some time with Liz and some of the...I mean if the focus is Medicaid, probably getting a better understanding of that.

SENATOR VARGAS: (Inaudible). Yeah.

MICHAEL CALVERT: Here is my suspicion, is that, yes, these changes will occur. In any one year, I don't know how significant they will be. Cumulatively over a period of time, they probably will become more significant. But now quantifying that and measuring that and assessing that gets to be...I'm not sure it's large enough to be significant. I'm not sure. I just don't have an answer for that. Now if there was some dramatic event on the horizon--feds capping Medicaid at some percentage or changing the formula or changing the composition as to who's eligible, something fairly dramatic--yeah, I think you can start doing that.

SENATOR VARGAS: I was thinking like over the last ten years our, you know, percent in poverty, those individuals in poverty across the state,...

MICHAEL CALVERT: Yeah.

SENATOR VARGAS: ...our increased Medicaid eligibility population, that, well, based on the last ten years and based on growth, what do we expect to happen over the next five years,...

MICHAEL CALVERT: Sure.

SENATOR VARGAS: ...the next ten years? And then how is that going to impact what we're going to spend, what we're going to forecast on spending in that area? I don't think....

MICHAEL CALVERT: Yeah, right now we've got it built in at 4.5 percent. It has a certain assumption with respect to eligibility utilization and provider rates. If we conclude that that's going to change then we'll probably start factoring it in. It will probably be more of a bottom line total to change.

TOM BERGQUIST: Yeah, the question on Medicaid is if you're talking about the baby boomers becoming nursing home eligible, you probably got another, what, 10 to 15 years before you're even talking about that at this point, until they're probably in their mid-80s. The second question is if you gain...if you build up for that, how long is that baby boom in the nursing homes going to be? I don't know what...

SENATOR SCHUMACHER: For a long time.

SENATOR WATERMEIER: A long time.

TOM BERGQUIST: Well, but I don't know what the longest...the average stay is in a nursing home, so to speak. I mean is it going to...is that...we notice...you notice that when you look at K-12. When the baby boomers went in, they increased the number of teachers a lot. But then when the baby boomers went out they didn't...the number of teachers didn't go down. The class size just was reduced. So there you could really see a dramatic change. It's kind of interesting but, again, it's not going to be there for a long time or forever.

SENATOR STINNER: We also don't know how much we need to spend on corrections. That's...

SENATOR SCHUMACHER: That's huge.

SENATOR STINNER: ...that, I think, is a liability, continued liability that sits out there that nobody is able to quantify right now. Percentagewise, that's growing at a much higher rate than what we're bringing in, in revenue. So again, you got a crowd-out effect and then that crowd-out effect becomes a cumulative effect.

SENATOR SCHUMACHER: Just from the spending the last three or four years on some of those special committees, if I had to guess, I mean we're going to have to have a capital expenditure not only for buildings and stuff but building staff of a couple hundred million dollars. And then I think we're looking at $50 million a year after that just to maintain the ship we have to build. And that's, you're right, that's a big, big item and it's, however big, it's an issue. We've got two things, housekeeping things. I think there's thought of having the Legislative

Council meet in November and that would be on the day that we usually meet. Do you know what the thinking is on that, because we've been trying to stay step in step with the...

SENATOR WATERMEIER: Thursday, Friday the 17th. I forget what it is, four things. I'll have Janice check and I'll send it out to you.

SENATOR SCHUMACHER: Okay. If we do, we'd have to...if we're going to try and stay coordinated with that...

SENATOR SCHEER: She sent the data out.

SENATOR WATERMEIER: She did send it out (inaudible)?

SENATOR VARGAS: Uh-huh.

PEG JONES: Yeah, and then (inaudible).

SENATOR STINNER: I think Economic Development moved to the 3rd of November.

SENATOR SCHUMACHER: Did she? So...

PEG JONES: They are but we just got an e-mail.

SENATOR SCHUMACHER: It's looking like we'd have to meet earlier and then we'd maybe also want to...

SENATOR WATERMEIER: Sixteenth and seventeenth (inaudible).

SENATOR SCHUMACHER: ...think what kind of presentation, if anything, to the Executive Council that we might want to make. We might want to have that part of our discussion next time, is what do we want to pass on that we think we might have learned so far. And finally, I think we've got a vacancy now.

SENATOR WATERMEIER: I'll check in on what to do--I meant to do it last week--and whether we can do it on Executive Board because I'd like to do it right away. Let's get somebody (inaudible).

SENATOR SCHUMACHER: And maybe we should...we could get a little input to try to tell the Executive Board where we think we're weak or what we might want to see. I mean, do we want a senior on here or do we want some more of the class that's going to have to finally solve these problems?

SENATOR VARGAS: I'm right here.

SENATOR SCHUMACHER: (Laugh) The freshmen class on here.

SENATOR WATERMEIER: I'm looking into it now. (Inaudible)...

SENATOR SCHUMACHER: Okay.

SENATOR WATERMEIER: ...Janice (inaudible) a note (inaudible).

SENATOR SCHUMACHER: Anything else for the good of the order? Do we have a motion to adjourn?

SENATOR WATERMEIER: You're the Chair.

SENATOR SCHUMACHER: All right.

SENATOR VARGAS: So move.

SENATOR SCHUMACHER: So moved. We'd be adjourned.

SENATOR WATERMEIER: You're adjourned.