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The Legislature's Planning Committee met at 9:00 a.m. on Friday, August 11, 2017, in Room 1003 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing. Senators present: Paul Schumacher, Chairperson; Matt Hansen; Dan Watermeier; and Matt Williams. Senators absent: Tony Vargas, Vice Chairperson; Joni Craighead; Merv Riepe; Jim Scheer; and John Stinner. Also present: Senator Sue Crawford.

SENATOR SCHUMACHER: Welcome to the Planning Committee. This morning we are locked and loaded and ready to go. The Planning Committee has been charged by statute with doing long-range planning for the state of Nebraska. It's been in existence for about ten years. And we are attempting to do something a little different this year than in the past, which was in the past a lot of good research review but also trying to see if we can extrapolate that research into policy matters. One thing that we're trying is an old academic trick that professors use and that is, basically, called academic freedom. You can...the senators are free to argue against things they believe in; argue for things they don't believe in; explore all kinds of ideas, even preach some heresy, in an attempt to try to figure out what's the best route forward. This morning we have three basic presentations planned. One Jerry is going to...with the University of Nebraska at Omaha, who's helped us out for years and years, is going to do regarding some of the demographics and financial situations that our people, particularly our senior people, face. We have a venture into long-range budgeting and some of things we might be able to see and glean from trends into where we are financially and where we will be financially years into the future. Mike Calvert is going to present that with the Legislative Fiscal Office. And also we have Senator Loran Schmit, who is one of the longest remaining--standing yet--senators with institutional experience going back 20-30 years and probably longer than anyone still around here, except, of course, Senator Chambers, who always beats us all out on everything. And Senator Schmit is going to look at little bit at the tendency we have to say things are cheaper when we pass them and they turn out to be expensive, and also a concern on our roads program and how we're going to maintain all these new roads we hope to build. Senator Schmit has got an engagement this morning because of a funeral that he has to leave early for, so we'll shuffle the thing around just a bit and let Senator Schmit go first so he can get to his funeral, not his funeral but somebody else's funeral. (Laughter) Senator Schmit.

LORAN SCHMIT: (Exhibits 1, 2, and 3) Thank you, Senator Schumacher. There are always disadvantages to going first and significant advantages to being in the cleanup spot, because you can always comment upon a previous witness's testimony to point out their errors or faults and so forth; you're not in that position yourself where your testimony can be refuted. But I do appreciate, Senator Schumacher, first of all, being invited. As you near the western slope of your service, very commendable service to the Legislature, I want to caution you that the advice of a previous senator is not very often sought by a sitting legislator. Senator Crawford, I think, will agree with me on that. Notwithstanding our immense wisdom and experience, it is not really that often sought. I brought with me a number of exhibits, which I will leave with the committee. First of all, for the record, my name is Loran Schmit, L-o-r-a-n S-c-h-m-i-t. I live in Bellwood, Nebraska, and want to thank Senator Schumacher for inviting me to testify here today. I served in the Legislature from 1969 to 1993. During that time, a number of bills became law that have had significant impact on the revenue system for the state of Nebraska. During the '71 Session, I introduced LB776. The purpose of the bill was to remove lead from gasoline and replace it with ethanol. At that time there was no ethanol industry in the United States. Even so, the oil industry vigorously opposed the bill. I will only comment on the economic impact of the bill. My purpose was to develop an ethanol industry in the state. There was very little public interest. During the succeeding legislative sessions, I introduced a bill that placed a 1.5-cent tax, with 1 cent refundable upon request, to collect money to build an ethanol plant. We collected $17 million under that bill. Obviously, that was not enough money to build an ethanol plant. During the 1990 Session, I introduced LB1127. That bill would give to an ethanol producer $5 million per year for five years if the plant produced 25 million gallons of ethanol annually. Five plants were built under that program and suddenly the state was obligated to an expenditure of $125 million, with $17 million in the bank--not a good position. I left the Legislature after the 1992 election, not by choice I might add but by the decision of a bunch of wise people. But Senator Wehrbein, Senator McKenzie, Senator Schrock worked with Governor Nelson to fully fund the obligations of LB1127. The 10 million gallon plant at Hastings, which was built in '85 and '86, was expanded to qualify for LB1127 benefits, which placed that obligation now at $150 million. In 1999, there was renewed interest in expansion of the ethanol industry. Two groups of farmers, one near Plainview and one near Kearney, hired me to help achieve their goal. Senator Dierks agreed to carry the bill and we drafted LB536, which was similar to LB1127. Total cash benefits were limited to $22.8 million for that plant. Ten plants were built under this program. A total of $352 million were paid to ethanol producers under both programs. So a program that began with $17 million in the fund eventually grew to an obligation of $352 million to the state. There are always questions if that type of program can be justified, but several years ago Nebraska Public Power did a study and concluded that the ethanol industry had a beneficial impact on the state of $5 billion--not a bad return on an investment of $352 million and an investment which continues to produce benefits year after year. Last year more than 40 percent of our corn crop was processed through ethanol plants. As significant as that economic impact is upon the state, I'm more proud of the fact that the successful effort to remove lead from gasoline as a health hazard began in Nebraska. There is significant evidence that there's a connection between the increased use of lead in gasoline after World War II and the increase in diseases such as dementia and Alzheimer’s. In 1987, the Legislature passed LB775, a business incentive bill. This bill was introduced by Senator Speaker Bill Barrett at the request of Governor Orr. Senator Vard Johnson, Chairman of the Revenue Committee, became the main spokesperson for the bill. During the floor debate, I asked Senator Johnson to give me an estimate to how many companies would take advantage of the bill and what would be the financial impact on the state of Nebraska. I'll paraphrase his reply. He said, I believe that 8 to 12 companies will take advantage of the program and I do not believe the financial impact upon the state over the life of the program will exceed $100 million. I asked Senator Johnson, do you think the financial impact might be five or ten times the $100 million? Senator Johnson replied: Senator Schmit, as usual, you exaggerate--all part of the record, one of the hazards of speaking on the floor, I might add. During a recent meeting with Department of Revenue officials, I was told that the total number of applicants under the LB775 program was 942 and the total impact was approximately $3 billion--a large increase over the estimate by Senator Johnson. What is interesting is that there are still 136 agreements in operation under the LB775 program. So that program still costs the state of Nebraska. When Senator Vard Johnson was back here for the 75th Anniversary of the Unicameral, I happened to mentioned to him the LB775 program and the increased cost. He was kind of like, well, Senator, I was a little low. That's a typical understatement by most of us legislators, of course. But anyway, to miss it by $200-some million and $2 billion from $100 million is quite a ways. The program was obviously very popular, so during Governor Heineman's administration, a son of LB775 was introduced in LB312, which also became law. It is my understanding that the Department of Revenue has received 656 applicants under that program and there were 353 active agreements under that program through 12/31/16. The impact of that program upon the revenue stream of the state is also in the millions. I don't believe there has been any study determined if there has been a net benefit to the state from the passage of LB775 and LB312. I have great respect for Governor Ricketts and present legislators, none of whom have blamed the business incentive plans of previous Legislatures for the financial difficulties which face the state at this time. They could go back and blame someone else, but they've not raised that issue. I'd like to explain the fourth set of circumstances with which I was involved which has created another financial problem for the state. It's an ongoing one, it's a serious one, and it's one we don't talk much about. In 1987, after several years of public meetings across the state, I introduced a bill which created the expressway system for the state. The idea of an expressway was the brain child of legislators whose districts were either crossed or were near to Highway 81. We held a number of public meetings and soon learned that there was much interest in a system that connected many additional communities to the interstate system. I might add, of course, Norfolk, West Point, Wahoo, many communities quite a ways north of...and out in western Nebraska, a long way from the interstate, pointed to us the disadvantage that a business had when they did not have access to the interstate. In 1988, the expressway bill became law. As I recall, the cost was predicted to be a little more than $200 million, and it was to be completed by 2002. It was an entirely legislative effort in cooperation with the Nebraska Department of Roads, much debate, much discussion. Governor Ricketts has announced his plan to complete the expressway system by 2033 at a cost of $500 million. I testified four times before the Transportation and Telecommunications Committee, chaired by Senator Smith, in support of completion of the expressway. I also during my testimony expressed my concern that the completed portions of the expressway required excessive maintenance. I told the committee that I thought the Legislature should demand from the Department of Roads and contractors an explanation for what I described as poor quality work. I've also expressed my concerns to Governor Ricketts and Director Schneweis. Both have assured me that new methods of construction will produce better results, and I have every reason to believe them. I might add, I have had good cooperation with the department when I talk about these programs. They don't always stick to their plans, but they've generally been pretty good. For the record, I asked Director Schneweis a question: How much money has been spent thus far to complete the 60 percent of the expressway that has been completed and how much money has been spent on repairs? I will provide the committee with a copy of his reply. Director Schneweis, in response to question one, replied that the state had spent $679 million to build two thirds of the expressway.

In response to the second question, the director said the state has spent $1 billion on repairs--50 percent more money on repairs than the original cost of the project. That means the state has spent $1,679,000,000 on 60 percent of the expressway, which the Legislature thought would cost $200 million for the completed project. This committee is charged with the responsibility of long-range planning. I have cited four examples of well-intended projects, each of which have far exceeded our original costs. In defense of the cost of the ethanol production incentive costs of $352 million, one half of that cost was paid for by a checkoff on corn production paid for by farmers. I do not know of any such cost-share provisions in LB775 or the LB312 programs. I might add that the ethanol plants were also qualified to participate on the LB775 and LB312 programs. And, of course, the extent of those benefits to individual institutions are not known. My personal investigation, I would guess that those benefits to the ethanol plants might be as much as twice as much as the $352 million. So that (inaudible) could be a billion dollars--far and away and above what I anticipated would be the original cost. But I hope that Governor Ricketts and Department of Roads will complete the expressway in such a way as to prevent excessive maintenance costs. I know he was taking on a new proposal, new design-build program--could be better and does have some problems. So the Legislature must maintain oversight on all of these programs. I might add, I think the Department of Roads stayed pretty much on target until I left the Legislature. When I left, for example, the Legislature admonished the Department of Roads that the only community that should be bypassed during that program was York, because of the peculiar underpass provision they have there in York. Otherwise, go through those small towns. I said you'll save money and you might keep the small towns alive. Well, they went through Columbus, went through Norfolk, both communities of 20,000; but they exit, they went around McCool Junction, a metropolis of about 300 people--not exactly (laugh)...and I have no idea, Senator, what that cost as far as an increase in the cost. But these are things which...and the Department of Roads held a number of hearings recently at which they gathered public input. Almost every one of those study groups, I believe, insisted that the completion of the project should go through those towns, for example, Shelby, Osceola, Stromsburg, etcetera. That's something which I think needs to be followed up on, because if you go around it's going to be difficult and expensive. We also insisted that where there is an existing satisfactory section of a two-lane highway that it not be torn up, that it be utilized; for whatever the life of this highway was, just lay down another two-lane along side of it. Some places they've done that, some...many places they have not. But once you start tearing up existing highway, laying down four new lanes, the costs go over the roof. So, you know, if you guys of the Legislature pay some bills, and so oftentimes the Legislature is criticized because money runs away in these things. But the Legislature, with best of intentions passing the bill, and then costs get out of your hands. And as a result, you have problems. And they can turn out to be quite an embarrassment. I can't help but brag a little, but my last admonition to this committee is you need to look a long ways ahead. In the Legislature, of course, we are forced to look at next year and two or three years down the road. We must meet those obligations. But an old man by the name of George Gerdes, who served western Nebraska, told me, Schmit, the Legislature ought to look 50 years ahead. He said we don't look far enough ahead. And he said, this Capitol would have never been built if somebody hadn't looked a long ways ahead. And he said, today, he said, we're so concerned about immediate need, we don't look far enough ahead and protect the assets we've got. George Gerdes came from the Sandhills. Some areas of the Sandhills there's 700 feet of aquifer, covered by sand, covered by grass, it takes ten figures to graze a cow. Well, you can't justify having all that aquifer dedicated to one animal. The state of Nebraska should establish a claim to that water so that in the future no federal judge or international treaty will require Nebraska to surrender our underground water to another state or another nation without compensation to the state. I drafted a bill once to provide that if the water under my farm were to leave my farm, I would be compensated, the county would be compensated, and if it left the state, the state would be compensated. Today, we're already pumping underground water into the Republican River to pay off an obligation of the state of Nebraska. So it accepts the premise that we're (inaudible) pay for water. It's just a matter of how we pay for it. My deep concern is...I also said at that time that the day will come when a gallon of water will be more expensive than a gallon of gasoline. Well, I was ridiculed. And I also said at the time that some day we're going to pay vaporize (inaudible) water, put it up on the jet stream and send it around the world--drop an inch on Saudi Arabia, an inch on Phoenix, maybe some on Las Vegas. Jim Cook was at the meeting when I spoke and he said, Loran, that wasn't a bad speech, he said, until you got into that Buck Rogers stuff. (Laughter) Well, I saw him here a while back and it's not so far off anymore. Well, when you can send a man to the moon and bring him back, and it was in 1944 when my high school principal, who I thought he was the smartest man around, said we all know a man can never go to the moon and we know you can't travel faster than the speed of sound. And he said, how in the world could you build an aircraft large enough to haul enough fuel to get there? And if you got there, you sure as hell couldn't get back and nobody wants to make a one-way trip. Well, three years later, October 14, 1947, Chuck Yeager went to the moon coasting at 17,000 miles an hours. So there's going to be things discovered in the future that make it possible for our underground water to be sold around the world. And I don't want the state of Nebraska...I wasn't smart enough to figure out how to do it, but you guys are all more experienced, or dumb as I am, and I hope you figure something out because to me, you know, I've raised...it takes an acre-foot of water to raise 100 bushel...raise an acres of corn. That's 150 bushels, and that's more corn than we need probably. The day will come when that hundred acre-foot of water can bring a lot of revenue to the state of Nebraska. And 90 million acre-feet fall on this state every year. That's a renewable resource. And so it isn't like the coal and gas (inaudible). There's billions of years to accumulate. Our water is a renewable resource and can be wisely used, maybe even marketed, and we need to be able to (inaudible) that. So getting now a long-range goal and (inaudible) as the Department of Roads and the program. I want to thank you and the Legislature for passing the gas tax bill which give us the money to complete the program, albeit 21 years after its previous completion date. Senator Schumacher, I hope you're there for the ribbon cutting. I probably will not be there. But I hope you fellows will be there and Senator Crawford and you'll attend. Thank you very much. I'd answer any question. And I want to hand out a copy of my testimony and I think I have...I thought I had a copy of Director Schneweis' letter, but I thought it would be of interest. So I'll leave these here for the committee.

SENATOR SCHUMACHER: Do we have any questions for Senator Schmit? Senator Williams.

SENATOR WILLIAMS: Thank you, Chairman Schumacher. And thank you, Senator, for being here. I've got a couple of follow-up questions that are at least important to me. You cited four different examples of varying kinds of legislation that were agreed to by the group that sits in here were good things to do. We could still discuss that today.

LORAN SCHMIT: Sure.

SENATOR WILLIAMS: But were estimated to have a cost of X, and then as time went on it was double X, quadruple X, whatever. First question is, how does that happen? Is that a mistake on the original computation or what's your take on that, Loran?

LORAN SCHMIT: Well, in the case of the ethanol bill, we knew that $17 million wouldn't build an ethanol plant. And we knew that we were...there was no ethanol industry. There was nobody lobbying for it. It's almost impossible to believe today that the Legislature in Nebraska was able to convince a majority of the members that we take the lead out of gasoline. Oh, the (inaudible) oil industry came in. They brought in doctors, lawyers, bankers, probably a few thieves, who said, no damage whatsoever to human health from leaded gas. That's been proven. There were hearings held in Nebraska. In Washington, D.C., Senator Muskie held a hearing and he was determined that lead was a threat. But there were witnesses before his (inaudible) claiming, I know about this than anyone else in the United States and there is no threat to human health from lead. Well, there was is a distinct (inaudible) amount of evidence that shows, you know, (inaudible) were using leaded gasoline before World War I. Then World War I came along and in the '20s there weren't many automobiles. In the '30s was the drought, Depression, not a lot of automobiles. Then the war in the early '40s. But after 1945, there was a huge increase in automobile traffic and the use of leaded gasoline. And there are studies that show there's a distinct correlation between the increased use of leaded gasoline and dementia and Alzheimer’s. And there are even studies that have indicated that there are...there's a relationship between crime rates in certain areas that have excessive use of lead. And what is most interesting is that we called for elimination in 1971. It was in the early '90s, I think, no, early '70s that the feds finally came out and said we should get rid of the leaded gasoline. But it took 22 years for them to phase it out. There was that much opposition from the oil companies. So you know we're all victims of...

SENATOR WILLIAMS: My question is a little different, though, in that what is the mistake, if there is a mistake, that the Legislature is making in the process that leads us to believing the road project was going to be $200 million and completed in this...a certain time frame...

LORAN SCHMIT: That should not have happened.

SENATOR WILLIAMS: ...and then after we pass the legislation? And then you talked about potential oversight from the Legislature as being part of that. And I always wonder where we draw that line and what is our ability as legislators to provide continuing oversight? You know, we always want oversight,...

LORAN SCHMIT: Sure.

SENATOR WILLIAMS: ...but can we really provide it? Are we the experts in those kind of things? I'm sure I'm not. So I'd like, from your historical perspective, what your thoughts are.

LORAN SCHMIT: Well, on the roads program, Senator, we had a lot of meetings with Roads people. And the tendency, of course, was to have a whole new program, but the Legislature said we can never afford four new lanes through this entire 600 miles. But we'll use existing lanes where they're satisfactory, we will go through the communities, we'll slow the traffic down, we will not incur the extra expense of adding a right of way, condemnation of (inaudible) land by going around them. And we've had a bare-bones realistic estimate. I really thought that would work. And my major concern was when the seven miles south of Columbus a short time after it was built--which I drive frequently--began to crack up. And then when they built the road around York, it was in such rough condition they had to grind it down before they could open it to the public. And there was even a story in the paper by one of the Roads persons when they had the (inaudible) the same company who had built some of that road to bid successful on another section of the road, and say let them have that bid so they could afford to buy better equipment. That wasn't an obligation of the state of Nebraska. And you get mixed up after a while, and all of a sudden no one's watching the store. Senator (inaudible) said, oh shucks, yeah, we should go around McCool. So they went around McCool, added $25 (million, $30 (million), $40 million to the cost. Nobody's knuckles get rapped, but, you know, it's not Dr. Schneweis' fault. It's not Governor Ricketts' fault, as of now. But if they go around York, I mean if they go around Shelby, Rising City, Stromsburg, somebody...and the Governor is waiting on what would happen. What are the advantages to go around? How much money is it going to cost? But number two, the roads ought to stand. We build a lot of good roads in the state. We all travel them. But I happen to save, I don't spend, but you travel from Texas to Canada, you can tell when you get to Nebraska. The roads are much worse. The other thing is, there's severe discussion that the original plan to build four-lane all the way to Yankton will now be completed north of Norfolk. There's a four-lane bridge across the river at Yankton. It comes to a two-lane. We're not going to have the benefits we envisioned unless we complete the whole thing. Same way with Highway 77 to Fremont. Governor Heineman said we don't need that. Well, that's Governor Heineman's opinion; he's entitled to it. But the '78...or '87 Legislature, '88 Legislature said we're going to make (Highway) 77 four lane all the way. And we had, I think, good reasons for doing it. The collective, in my opinion, the collective wisdom of 49 legislators fueled by the people, do you know when you go home every night, you talk to your people. We don't make those decisions in a vacuum. We make them talking to people. And just like today, the property tax (inaudible) issue (inaudible) like mine. The roads are always an issue to people because you pay for roads whether you have them or not. Not your...you know, there are a lot of bad roads in Nebraska. It's an embarrassment to me that you drive down those brand new expressways from Lincoln to Nebraska City or from Columbus to Norfolk. I counted thousand of patches in the road between Norfolk and Columbus. It is and only can be described as a disgrace. Someone ought to pay. Contractors ought to be held responsible. If you hired someone to do that kind of work for you and it cracks up in a few years, I think there would be consequences. There should be consequences. I will say this. I've talked about this with the new director; he's well aware of that. He said he has made some clawback provisions from contractors. I've not seen the monetary estimates of those savings or recoveries, but I'm glad to see he's aware of it. And so if the Legislature doesn't follow up, no one is going to know because you'll have...I said to the director, if you spend a billion dollars repairing a $679 million project, how much money are we going to spend in the next 20 years repairing a $500 million project?

SENATOR SCHUMACHER: We're running into...we've got a time issue here at this time. We probably won't take any more questions. I want to thank Senator Schmit for sharing his wisdom with us today. And I want to admit that I'm a very bad housekeeper. We didn't record in the beginning, Senator Hansen, Williams, Watermeier are here; Senator Schumacher. We didn't take role. Senator Crawford is a guest senator today with us on the panel. And I'd ask for a motion to approve the transcript as the minutes.

SENATOR WATERMEIER: So moved.

SENATOR WILLIAMS: Second.

SENATOR SCHUMACHER: All in favor?

SENATORS: Aye.

SENATOR SCHUMACHER: All right, so we got our housekeeping done, I made my bed.

LORAN SCHMIT: I (inaudible) give this chart for the committee but here's a copy of my testimony. Thank you, again. I'm real pleased to have been here. Sorry to run on so long. Thank you, again.

SENATOR SCHUMACHER: Thank you. Jerry, you're up.

JERRY DEICHERT: (Exhibit 4) I was trying to answer a few questions that were raised last meeting. And one of the questions that was asked by many senators was kind of the impact of retirement, what are some of the incomes and that. So the first thing I did was I looked at...looking at people who move into the state, move out of the state by age group, and what kind of incomes do they have, just to see what was going on. And the first chart shows that about 6,700 people a year over the age of 55 move into the state...or move out of the state, and 5,700 move into the state from some other states. So we have a net loss of about 1,000 people per year in that age group over...that was measured over the 2011-2015 time frame. So there's a net out-migration of about 1,000 people, 55 and older, and that's looking at state-to-state. We're not looking at foreign, people moving in from foreign countries or moving out to foreign countries. If we break it out by age group, we can see that the biggest loss of population is for people 55 to 64. There's also a little loss of people 65 to 74; and we have just a few more people 75 and older move into the state that move out of the state. It's really pretty much, given the fact that this is a sample, it's basically we have the same number of people moving in as moving out for 75 and older. But you can see the biggest loss of those people, 65 to 74. Then the next question that people were wondering was, well, what are their incomes and are they taking income out of the state? And when we look at the average annual income per person, not per household or not per family, it's per person by those age groups, we can see that the people who leave the state had an average income of about $42,000 of the 55-year-olds. The ones that came in were $37,000; and the people who stayed was $47,000. And I have a detail table, but it shouldn't be too much of a surprise because most of the income of the people that stay in the state is earnings. They're still working. And so we know that people who are working will probably make more than the people who are just relying on retirement income. And you can see that's pretty much the case through all of those...all of the age groups is that the people who stay in the state earn more than...or have higher incomes, I should say, than people who left the state. If we look at it by type of...what we think of as retirement-type incomes, and we look at 55 to 74, and that first bar on the left looks at interest income; and again, you can see that people who left the state had less interest income than people who stayed in the state or came from other states. Retirement income, that's where the biggest difference was. So these folks are retiring and leaving the state, and so they have the most income. The ones that come into the state of Nebraska, the next group, and then the people who stayed in the state are much less likely to be retired so their average retirement income is less. And it would be the same way with Social Security. You can see that the people that left the state had higher Social Security income than...on average than the people who stayed in the state. If you look at 65 to 74, you can see that that's where Social Security income really becomes a major source of income. And again, the people who moved out of the state in that age group have pretty much the same incomes than the people who stayed in the state as far as average income from interest, average income from other retirement income, and average income from Social Security. And for those 75 and older, it's pretty much, you know, not...it's about the same. People who stayed in the state had a little bit more interest and dividends income, but retirement income and Social Security was the same. So if we look at the detail tables, I have those, and you can look at those. I just included those to show you where most of the income comes from. But for the younger old, it mostly comes from earnings. Most of them are still working. And the ones who leave the state are more likely to have retirement income of some kind. But people who stay in the state typically earn more or have higher incomes than people who leave the state or people who came into the state from other states. The other question that was asked was, do we have any way of knowing how much...what's the value of land that's owned by people from outside Nebraska? And we looked all over and without doing some...a lot of compiling of data, there's nothing that we could find that was already compiled. The Department of Ag Economics, that does their annual survey of ag land value, they ask where the purchasers of the land live. So you know, people who buy the land, if they are from Nebraska, are absentee owners in Nebraska or from other states, and from other states is a really small percentage. But one of the things that we can find is that we looked at the census of agriculture, and that's done every five years, and 2012 was the last one, and so I have that information. And what they look at is they look at the tenure of the principal operator. So it's the full owner, a part owner, or tenants. And so when we look at the number of farms by principal operator, we can see that about 6,000 of the farms in Nebraska were owned by tenant or farmed by tenants; and 24,000 or something were by full owners; and

18,000 were part owners. But when we look at the land value, we can see that the land value of full owners was $20 billion; and for part owners was $75 billion; and then for tenants was $12 billion.

SENATOR WILLIAMS: Jerry, what's the description of a part owner in this analysis?

JERRY DEICHERT: In looking at the data, I've got to...I can't recall exactly, but part of it is, is that they have some that they lease and some that they own and that's the biggest, that's the biggest.

SENATOR WILLIAMS: That's...

JERRY DEICHERT: It's kind of a juggling, okay?

SENATOR WILLIAMS: Yeah.

JERRY DEICHERT: That's the biggest difference. And when you look at value per farm by type of ownership, the total is about $2 million per farm; full owners it's $800,000; part owners it's almost $4 million; and tenants it's $2 million. And the...we were talking about that, Craig and I, and kind of speculated that part of that might be because tenants are going to know the most current market value of their land, where a full owner may not have as good an idea of what the full market...the actual market, current market value is. So they might have a higher value, especially when land values are starting to increase. So if they're not in the market, like 2012 was probably a time when...as they started to increase, if you weren't in the market you might not know how fast things are going up. So that's why tenants and part owners might be a little bit higher than (inaudible). But you can see that there's a lot of land in Nebraska that is farmed by tenants and the value is fairly substantial. Now, it's just a question of where those owners reside. And also, kind of as a side, when we look at the total value for ag land and buildings, in 2012, it was a little over $100 billion. But when you look at assessed valuation for that year, it was about $50 billion. So it was about...assessed valuation was about half of what the farmers said their land was worth. And that's, again, because it takes a while for...as value goes up, for the assessed valuation to go. And in 2015, the assessed valuation was about the same as what the market value was in 2012. The other questions that this committee has struggled with for years was, how do we measure wealth? And Senator Schumacher sent me a link and I looked at that and I have some of that information up here; but there's almost nothing...well, there is nothing that we could find that measures wealth at the state level or at the county level. Wealth is just something that's not readily measured. So what we've looked at is how can you get at wealth by looking at payments to wealth. And so one of the sources, and you probably can't read that anyplace can you, either on the handout or on here, so? But one of the sources of wealth is by people from their income tax. And so the statistics of income reports show by county interest paid, dividends paid, other types of wealth, and so you can see how many returns by county have interest, how many have some other type of dividends or that. So that's one way of looking at wealth. And what we did was we looked at just interest income by county. And you can see that for Nebraska, about a third of the returns had some interest income. And that averaged about a $1,600 per return. The highest percentage were in Arthur County where 61 percent of the returns had interest income, and the lowest was Dakota County with 23 percent. And if you look at the average value per return, Cherry County had, of the 38 percent of the returns that had interest income, those averaged $2,500. So we could look at the dividends, we could look at some of the other measures to wealth and look at that at the county level to see...get an indication of wealth. But it doesn't really look at it at the household level or what are the characteristics of the people who have that. But I think when you look at this, you can see that Cherry County and Douglas County have the highest averages, and then you have Banner and Logan down at the bottom. And so I don't know if you can...if we mapped it, if you could see a pattern. But it's another way of looking at wealth. Obviously, you've probably seen this many, many times, the assessed valuation. And that gives you an idea as to the property wealth within a county. And then this comes from what Senator Schumacher sent me. This is from the Federal Reserve and they do a survey of consumer finances, and this is from the 2013 Consumer Finances, and this is just national. But they look at how many households have stocks, how many have bonds, how many have savings accounts, and they look at housing and all of those values. But the thing is, when you look at it, that nationally about a 14 percent of the households have stocks. And the average value of those households that have stocks is about a little under $300,000. Now, I have seen some states that have taken those numbers and applied those to various states and tried to come up with wealth. If Nebraska is the same as average, what would the wealth be? And we could do that, but the problem is when you have rural areas where a lot of the wealth is in ag land, that doesn't really get reflected in here very well. And so...and I think one of the things that we know that happens is that farmers will capitalize their income in land rather than stocks and bonds. And so that's...I don't think it's going to be really comparable. It might be more comparable if you look at the more urban counties, but I don't think statewide we could look at these. But I think it gives you an idea that where...what big sources of wealth are nationally. And whether or not Nebraska has those, I don't know. The other source is that the Federal Deposit Insurance Corporation looks at the states with bank accounts and the types of bank accounts they have and how much money they have in the bank accounts. Again, that's at the state level and it doesn't really look at many other household characteristics. So there's...we can kind of get some ideas that way, but it's not the best way of getting at it. And the last one is, again, there's a national survey that looks at dividends, interests, and rents by county. And that goes back to 1969; and so we could look at that annually by county to see if there's been a change in wealth and what the per capita wealth is and look at some of those measures. But again, we're all just kind of grabbing here and there. There's really no good direct measure of wealth for households that we could find. The last part is, there was some data request, a senator, I think it was Craighead, asked about some things and I just put this up here because this is...she was asking about physician shortages or something statewide. And I thought we have some of these graphs before, but this is the link, and the important thing on here is this looks at by type of physician. And I thought I'd put that map up there for the shortage areas for psychiatry and mental health. And you can see that outside a 25-mile radius outside Lincoln and Omaha, the entire state is in shortage, with the exception of Thurston County. And so I think somebody asked...I think one of the senators asked about mental health shortages. I think that was one of the questions on there, so I put that on there. That information is out there, but it'd pretty much say, well, Nebraska is, outside of Lincoln and Omaha. And it's a...and then the other one was some...she had asked for some education information so I put that on there. So I'll entertain any questions. And I suppose I...again, I violated the...this is Jerry Deichert from Center for Public Affairs Research at UNO; and it's D-e-i-c-h-e-r-t.

SENATOR SCHUMACHER: (Exhibit 5) Now you've made your bed too. In conjunction with this discussion, I did pull from that material I sent to Jerry a couple of graphs. And there are some links are here--and we'll maybe quick pass these out--that if you've got time to kill and poke around on, they're interesting statistics. They're national statistics. And like Jerry said, to try to break out anything for Nebraska is just really...doesn't appear to be much data that you can rely on. But with the exception, possibly, of the aberration because we have high net worth in many, many sectors of the ag community, even though they may not have a lot of cash, this is something we can use to get a feel for--did you give Jerry a copy, he may have a copy--get a feel for what we need to start anticipating with reference to baby boomers getting into an area of need and not have a bunch of money. If you look at averages, it doesn't look so bad; but averages aren't what pays the bill. It's how the income is distributed and wealth is distributed. Okay. And the first one that--little J-curves there--that basically just shows that until you start getting up into the higher areas of better than 70 percent percentile of wealth, wealth is very low. You don't start seeing wealth until you get above the 70 percentile. So we got a whole, whole lot of people on the left-hand side of that first J-curve graph that for 50 percent of the population don't have a ton of money. And this is per household. So you pretty well can divide by two in order to get an idea. The second, on the backside of that, is if you look at the various quintiles, you see, basically, for people who are...let me see if I can find the...at the 10 percent quintile, which is really the bottom 10 percent of the population, you have virtually no net worth. And even if you go up to the 50 percent quintile, you are at $210,000 net worth; 50 percent of the people have less than that for the couple. And a third, roughly, have less than $90,000 per couple. That won't pay for much time in the nursing home. Kind of interesting things to look at. And also the last one takes that and breaks that down by net worth with the various age brackets. And net worth does climb as you get older, but that climbing isn't distributed very evenly across the population. So you have, basically, a third of the population who has, maybe, less than a year or two of nursing home money socked away if you completely sold them out and didn't even pay for the funeral bill. So that somehow, depending on our social values, 20-30 years from now, will reflect on where the state burden is going to go and how we can possibly prepare for those folks looking for some help. I said, those two links that appear on the bottom of the third page are interesting things to meditate on and I wanted to get those particular things, to the extent that they're relevant in Nebraska, before the committee so that we can think of what problems might be down the road for the folks in the bottom 50 percent of net worth in the state. And that is...as we saw from the graphs the other week, that's a percentage of the population that's growing. More and more people are going to be over 65 years old. So discussions for Jerry on what he has observed and questions? Were you able to tell, on the part ownership thing, has that number been growing or shrinking in our tenants? That would be some indication of whether or not the ownership is shifting out of state on a permanent basis or to nonfarming interests.

JERRY DEICHERT: I did not go back. They have that. In fact, I can go back and look at that for next time. But I didn't go back and get that. And I think we could...I could also go ahead and look at the...those reports that the Ag Econ Department has put out to see if the percentage of buyers is changed over time that come from out of state.

SENATOR SCHUMACHER: Now, if there was a corporate buyer buying from out-of-state, and they bought four farms, would that show up as a four or a one?

JERRY DEICHERT: I'm not sure. I'm not sure. They also have on that census of agriculture, they also look at the type of ownership, if it's corporate, if it's a family corporation or nonfamily corporation, or an LLC. It breaks those out too.

SENATOR SCHUMACHER: Okay. Anything else? We'll move into our last hour or so here. Thank you, Jerry. The...Peg, you may want to go find Mike. The last part of our trifecta this morning deals with our long-term analysis of state finance. And I've asked Mike Calvert to do something that I haven't seen done, at least, and shared with the Legislature generally in my time here and that is let's look beyond the immediate budget. Let's make some assumptions as to expense growth, as to revenue growth, and let's look out where we're going to be ten years, maybe even farther past what we've seen on the sheets that are put out for our fiscal status for this biennium and the next biennium to get an idea of what general direction we're headed and what we can do to protect ourselves from rough water if that course takes us into financial difficulties and what are the odds, kind of, that we will experience shortfalls, what we need to prepare, and just let's see if we can look beyond that last column in those financial projections and get a feel, best we can, of how we can protect ourselves from coming up short on all these needs that are probably out there and probably going to be coming our way and maybe even in an unexpected way. Mike, have at it.

MICHAEL CALVERT: That's all you want?

SENATOR SCHUMACHER: That's all I want. I just want to know the future.

MICHAEL CALVERT: (Exhibits 6 and 7) (Laugh) Okay. My name is Michael Calvert; I'm the Legislative Fiscal Analyst. Last name is spelled C-a-l-v-e-r-t. I do have a handout. I'm not going to refer to it immediately, but I will eventually. Right now, trying to find...there we go, a spreadsheet, and I'm going to be referring to this spreadsheet in a few minutes. Give me a moment just to kind of get things set up, if you don't mind, please. Okay, Jerry, what did you do? Why did my stuff disappear?

PEG JONES: It might be on my account right now.

MICHAEL CALVERT: No, I logged off your account and I'm on my account now. Okay. Why, because this screen has got everything.

JERRY DEICHERT: That happened to me last time.

MICHAEL CALVERT: Okay, that's not good.

SENATOR SCHUMACHER: Now we know why the Appropriations Committee has a hard time. (Laughter)

MICHAEL CALVERT: You're saying I'm inept?

SENATOR SCHUMACHER: No, no. We just don't know how to wire in the screens. Can we reboot?

MICHAEL CALVERT: I'm trying to remember the solution, because I did find a solution to the problem he had.

SENATOR SCHUMACHER: Can we kick it or reboot it?

MICHAEL CALVERT: Yeah, I might have to do that. Okay, let's see. Seems to be...oh, I see what the...okay. That little crinkly line down there says it's not getting a signal and the system does this once in a while. I don't know why.

PEG JONES: I didn't do it. (Laughter)

BREAK

MICHAEL CALVERT: Okay. I have a handout. I'm not going to get to it right away. I'll get to it eventually.

SENATOR WATERMEIER: You know it's dangerous to hand these out. We're going to start to stare at them, right?

MICHAEL CALVERT: Okay. I've already entered my name in the record I guess. Okay. Senator Schumacher, a couple of weeks ago, asked me about the possibility of running some simulations on a longer term basis with respect to the General Fund, so really, an extension to the General Fund financial status. And to some small degree, we've done this sort of thing on kind of a case-by-case on a very minor basis. But Tom and I talked through this and I analyzed how we wanted to approach this. To some extent, you should all be familiar with or at least had exposure to our five-year financial status. Our five-year financial status consists of when you go into a long session, the most recently completed year, the two years you're building a budget for, and then the two-year planning horizon. So, in total, we're talking about five years. And that has been, in my estimation, a very rigorous and detailed exercise in trying to address the sorts of things I think Senator Schumacher is concerned with, and others in the Legislature, with respect to keeping an eye towards the future and trying to anticipate some of the opportunities and some of the risks that we'll be exposed to. It becomes much more complicated extending it out into a future time period beyond that five-year horizon. In effect, we're talking about four years from now. So this was the exercise that we embarked upon and the premise that Senator Schumacher provided us was let's look at the ability to vary some growth rates over a period of time with respect to the bottom line revenues and with respect to bottom line expenditures. So...and that's what we have done and it's in two parts. There is a simple version and, just because we are who we are, there's a more complex version. And we'll start with the simple version first and go through a few things that I think are important. What we have here is the simple version. And what I will emphasize here is these first five years are the financial status numbers. All the numbers, beginning balance, net receipts, General Fund transfers, out Cash Reserve transfers, appropriations ending balance, and so on, all of those come directly off of the financial status as published in the budget book that just recently came out and is the basis on which we started. Now, when Senator asked us to do this estimate based on long-run percentages, it was based off of the current year, '17-18. What we decided to do was, since we had already cast a financial status through the last legislative session, our start point would be 2021. Your two benchmarks that you're going to have to watch as we move through time is going to be this line here, I'll highlight it, shows $174.6 million revenues versus appropriations. That is what we would refer to as structural balance--what is your position in that year with respect to revenues as compared to obligations, and I emphasize obligations. We look at appropriations and transfers out. Primarily, the property tax credit is the big player in the transfers out. It does not show as an appropriation, but it is a financial obligation just like an appropriation. It just happens to be that the Legislature structured it as a transfer out to another fund, so we include that. That's one key benchmark. The other is the ending balance, $481.8 million. Okay? That is per the current financial status projecting into the future, all of the assumptions that we have built in there that Senator Schumacher likes to argue about. (Laughter) And I...no, that's fine, terrific. I mean that's part of the process I think we have to go through. But it has assumptions with respect to growth rates and how expenditures are going to track. And it's based on some historical patterns, and especially on the expenditure side, it is fully detailed in our budget book as to how those numbers were arrived. And actually, when we get to the more complicated version, I'll be able to touch on that. But those are the two key benchmarks that we have to deal with. A positive, obviously, is with respect to a structural balance is "a good thing." Okay? One of the things that I was going to bring up, and I will bring up now, is that when you look at this structural balance and then if you look at this simulation and the percentages that we use, that structural balance continues to expand into the future under the assumptions that we've got laid out to start with, and your ending balance will grow. Realistically, that probably won't happen, and I will go into that, for a number of different reasons. But first thing I would point out is that ending balance as of 2021 of $481.8 million, if by good fortune that turns out to be true, that's probably about $180 million more than the minimum 3 percent reserve that we are required to have by law. I will remind you, however, that your Cash Reserve Fund balance is going to be at that time less than $370 million. And there is, perhaps, a more optimal number that I will touch on later on, is probably one of the fundamental key points that will flow out of this whole thing. Okay. So, we start at that kind of a balance. We start with that kind of revenues and appropriations. All the numbers come from the financial status. Here we go. Time period from 2021, we did a ten-year time period to fiscal '30-31 and extended, based on these percentage calculations, into the future what a balance would look like theoretically and what a structural balance would look like theoretically. Here are the assumptions: revenue growth year over year, 4.5, roughly 4.6 percent, it's just 4.57; transfers out, i.e., primarily you're talking property tax credit year over year, 4 percent growth; General Fund appropriations, 4 percent. Where did these come from? The 4.5 percent General Fund revenue growth, if you look forward into 2021 and you cast forward, on a rate base adjusted basis, how historically revenues have grown, that would be our expectation in terms of a long-run average. It's around 4.7 percent. And it's a little bit lower than that just because the last couple of years that added to the calculation, the average. We're usually low. Okay? So it's kind of dragged that average down. So I would say in the long run you should probably expect something in the range of 4.6 to 4.7 percent under current law. And that is what the projections are going forward from 2021 forward. Okay? Transfers out was just kind of an arbitrary decision on our part to grow that. That may or may not be a policy choice that the Legislature ultimately makes. Appropriations, 4 percent going forward, from 2021 going forward. Where did that come from? Eyeball methodology. As of 2021 there's a number of changes in the prior years, primarily as to school aid. There were some changes with respect to the school aid formula. Those sunset. By the time you get to 2021, things "normalize," if you will. So going forward, eyeball method, just based on our estimates, that far into the future it looks like the expenditure growth, current law, under the assumptions that we lay out, moderate inflation and so on is going to be fairly moderate. So that really explains...I mean if you show revenue growth of about 4.6 and expenditures, obligations growing at 4, little wonder that you have a growing...ooh, I don't want to do that. (Laughter)

SENATOR WATERMEIER: Undo.

MICHAEL CALVERT: Is there an undo somewhere up here?

PEG JONES: Escape.

SENATOR CRAWFORD: Above back arrow, right above where it says home.

MICHAEL CALVERT: Oh, back here? No, that's not doing it. Oh good.

AUDIENCE: You're supposed to hit enter first and then the back arrow.

AUDIENCE: Press escape.

MICHAEL CALVERT: Then do undo?

AUDIENCE: Yeah.

MICHAEL CALVERT: Oh, thank you.

AUDIENCE: And don't touch it. (Laughter)

MICHAEL CALVERT: Okay. So it's little wonder that the structural balance, if you're starting from a positive structural balance back in 2021, that it will continue to expand under that kind of a scenario. Practically speaking, is that really going to happen? Probably not, and I'll go through a number of different rationale points. Now, let's do a quick scenario change. Let's say we're going to change revenue growth to about 2 percent. What happens then? And again, you're going to watch column L and column H. Okay? Significantly lower revenue growth. You start seeing a structural balance that shifts from 174, it gets smaller in the next year, it becomes a negative in the future years. So, obviously, you're going to start seeing some significant problems. Your fund balance in terms of a ending balance for the General Fund gradually erodes in the initial years and then more or less collapses in the latter ten-year period. And, you know, just for fun, we decided to extend it out a few more years, out to 2038 and '39. And as far as I'm concerned, about all that proves is we have a sense of humor about this that we can actually predict what this might look like. But that gives you an idea in terms of the change. Three percent, not as dramatic, but very similar results. A structural balance that erodes to a negative $462 million by

3031, a fund balance that is a large negative. Now, obviously, if we started on this kind of pattern and this kind of trend, there are intervening things that will happen. But this gives you a sense as to the timing in terms of how soon, how far out into the future some of these events might happen. The other thing that I think is always interesting is that it doesn't take a large percentage change in terms of an assumption to have these things start to turn on you. It doesn't take much at all.

SENATOR SCHUMACHER: Can you stick in 3.5?

MICHAEL CALVERT: Pardon, I'm sorry?

SENATOR SCHUMACHER: Can you stick in 3.5 percent?

MICHAEL CALVERT: Sure. Three and a half, okay. Structural balance is sustained for a longer period of time. It starts to erode further out and into the future. The fund balance grows and then starts to erode in the latter part of the cycle. And if...

SENATOR SCHUMACHER: That's about ten years out that that happens?

MICHAEL CALVERT: Yeah, right here, in '30-31, right here.

SENATOR WILLIAMS: But as you mentioned, Mike, if you see that's what's happening, those next two assumptions change also.

MICHAEL CALVERT: Absolutely, yeah. You adapt. I mean, that's why you build a budget on a two-year cycle. That's why you revise revenue forecasts periodically. Okay? But the important point, I think, is it does not take much in the way of change percentagewise to start having some fairly dramatic effects and fairly quickly. Now, what we're really doing is, is trying to develop a sensitivity analysis now in terms of these kinds of changes and what are the drivers. Is it on the revenue side? Is it on the expenditure side? And right now this is a very simplistic design. I mean, we've got some very fundamental issues that we need to address in terms of what happens. There are some fallacies. We're starting from an end point that may or may not...a 2021 end point that may or may not be true. Okay? It is based on a certain set of assumptions. As you go forward, as your revenue situation changes, as your appropriations issues change, that base year result will change. Between now and 2021, everything comes to pass just exactly as this shows. One of the decisions you might do differently is you park $180 million in the Cash Reserve Fund. Okay? Well, now you've got an ending balance that starts at $300 million and that changes the flow into the future, and that will change it quite a bit. Now I'd love to be able to do that for you, but I don't dare do it because I haven't worked with this spreadsheet long enough to be sure I know what I'm doing. But, I mean, that's something we can get to into the future. Okay? So that's one of the fallacies as we start from that kind of a structural balance, we start from that kind of an ending balance. Obviously, as you point out, you have a tendency to adjust budgets and make changes as we go. So that is going to change. I think a key point, and I'm going to reiterate this a couple of times, is one of the big issues that future Legislatures are going to have to confront is recapitalizing the Cash Reserve Fund. And that may be easy; it may be difficult, depending upon this scenario flows out. Okay. How this surplus evolves many determine what happens to that balance. Keep in mind that the Cash Reserve Fund is replenished fundamentally by transfers of a surplus to the General Fund. You start with a revenue estimate that was a basis for a budget. When the fiscal year is done, you compare revenues actual to the estimate. And if you're $100 million more revenue than your budget called for when you first set it, $100 million in July goes to the Cash Reserve Fund. It's an enforced savings account. That's all well and good as long as that happens. The premise that's fundamental here is that your revenue forecast is wrong. You're banking on it being too low, and that's how you recapitalize the Cash Reserve Fund. Right? The handout that I gave you I'm going to point out there were a series of years in the '90s where revenue estimate errors were measured by tenths of a percent. During that time period, you wouldn't park any money in the Cash Reserve Fund. So you might want to think about some strategies as things evolve between now and 2021 that if the automatic mechanism doesn't work to recapitalize it, you might want to give some serious thought about proactively thinking about making transfers or doing something different. And it's been done before over the last 30-some years. I can remember a couple of times, maybe three or four, where Appropriations Committee and the Legislature proactively said, ah, we need to park more money in the Cash Reserve Fund. In fact, there was one year where we didn't have any money in the Cash Reserve Fund and the committee decided, okay, we're going to...we've got $18 million; that's where it's going to go. And the Legislature enacted that. Okay. The composition of revenues and expenditures and how they grow is extremely relevant to the understanding of the long-run risks and opportunities. Things are not linear. This is a straight-line analysis, 3.5 percent year over year; 4.57 percent per year is a baseline. Okay? Things don't work that way; they just don't. And again, I will refer to the handout. If things are notchy, that's a big part of the problem. There are a lot of ups and downs that cause problems. There are going to be mismatches that occur as to timing of revenues and the growth expenditures and obligations. When you build a two-year budget with a fixed ending balance criteria, financial stresses will occur with your planned estimates. And finally, most...very importantly, revenue estimating here contribute significantly to year-over-year, biennium-to-biennium errors, altering your further expectations. None of that is built into this scenario. This scenario says everything plays out the way expected. And I will guarantee you it won't work that way. Now, don't mistake what I'm saying. I think the planning effort and the kinds of things that this committee tries to do and is perhaps going to be looking at is extremely important. I don't care how foggy the crystal ball is, this is invaluable. And uncertainty, in my estimation, is always the more reason to try. The process becomes very complex very quickly and gets difficult, but I think it's worth the effort. We're dealing with some broad categories. The second spreadsheet, as I suggested earlier...would you like to try any other scenario, Senator, while we're here?

SENATOR SCHUMACHER: No, I think the fact that a little bit of change in revenue long term makes a big difference.

MICHAEL CALVERT: Uh-huh.

SENATOR SCHUMACHER: And how much of the transfers out, or the appropriations, how much flexibility do we have?

MICHAEL CALVERT: Yeah.

SENATOR SCHUMACHER: And do we have flexibility on cutting back on programs for the aged or in education or, you know, the neatness of the math is demonstrated well.

MICHAEL CALVERT: (Exhibit 7) Yeah. Okay. This is more detailed. Essentially, the same material through 2021, but how we arrive at revenues and expenditures can vary. This breaks revenues down into a more finite breakdown as to sales tax, 4 percent year-over-year growth; individual income tax, 5 percent; corporate, 5 percent; miscellaneous, 2 percent; total revenue on net, 4.6 percent year over year. That is the rate base adjusted...close to the rate base adjusted average. I mean, the math between this sheet and the previous sheet are a little bit different, because on one hand, the first sheet, you're dealing with a bottom line total, and now we're breaking it down into component parts. So we're try and make it match as closely as we can. It's not identical, but it's very, very close. General Fund transfers out; property tax credit...and by the way, the yellow highlighting on these cells are those that I can change. General Fund appropriations, this breakdown more closely mirrors what we do in our five-year financial status. Our five-year financial status, if you go to our budget book and you go to that section that deals with the great beyond, the next two years, there is a detailed discussion of what I call cost centers. So you will see a discussion on special education; you will see a discussion on what we're assuming with respect to K-12 school aid; you will see a discussion of aid to ESUs, homestead, personal property tax relief, community colleges, and so on. Okay? This extension beyond 2021, this spreadsheet allows you to now start manipulating individual categories in terms of growth rate of revenues and expenditures. And you can start modeling and kind of getting a sense as to what's most significant with respect to the revenue side and expenditure side. Again, we start from the same place, $481 million ending balance, a structural balance of $174 (million). This scenario is comparable in terms of the previous sheet, a little bit more detail so the numbers work out a little bit differently but very, very similar. Results, in terms of end point, as to an ending balance here and to revenue versus appropriation structural balance here. So you can alter those. And what I would like to point out, along with the percentages, there isn't just a one-liner here. In terms of special education, basically, we're inflating that at the basic allowable growth rate; same thing with respect to aid to ESUs. Community colleges, essentially 3.5 percent basically covers the 2.5 percent salary increase and 6 percent health insurance, similar to the university and state colleges that we built in. We have some percentages with respect to transition of wait list on developmental disabilities, rate equity, so you can kind of see some of the core assumptions that flow into that. We have historically included estimates with respect to General Fund impact for salary increases in the future, health insurance. They're a placeholder. We're not trying to predetermine what those ought to look like. These are largely going to be collectively bargained. But we think it's important...and, by and large, what it is, is we look at inflation and we look at the most recent collective bargaining contracts and kind of do the eyeball method, say something fairly consistent with that. So these are the key things. The big-ticket items really become school aid, TEEOSA. You'll notice, if you go up here, that K-12 school aid is not highlighted. It comes in a 5.3 percent. See below. Well, what we did is started to expand our discretion with respect to what you want to assume. Key elements: school disbursements, property valuations--we can alter those. Medicaid is another big-ticket item. Over all, General Fund, 4.5 percent. We've got a small cash fund contribution, relatively speaking, to Medicaid but, more importantly, federal funds growth, 4.5 percent; Medicaid total, 4.5 percent. What I would point out is that ratio of state and federal, for '18-19 General Fund roughly about 40 percent in terms of Medicaid overall, okay; federal, 57.4 percent. Given these ratios going into the growth rates into the future, that ratio stays the same, '38-39, it's still 40.4 and 57.4. I think one of the big policy issues that this Legislature may ultimately confront is really something that's going to flow from the federal level in terms of Medicaid. What's going to happen to Medicaid? One of the things that has been discussed is capping Medicaid in the federal share, okay? Right now we've got it growing 4.5 percent, consistent with the overall Medicaid growth, which, by the way, I will point out 4.5 percent is pretty moderate growth rate. We have seen growth rates well...much closer to 8 to 10 percent year over year for a period of time, for a variety of reasons. So 4.5 percent, and again I'll go back. As a refresher, we start here, here, we end up at 4 billion 6, 682. And I kind of focus in on the structural balance, 682 is a structural balance. Let's just go in and do one thing, and I'm going to cap the federal share, too, okay? Look what happens. Our base rate in terms of Medicaid growth, General Fund, 4.5 percent. If we pick up the difference, growth rate spikes up 6.9 percent in terms of the General Fund cost share. That's assuming you pick up the difference and the feds are capped at 2. The other interesting thing is...

SENATOR SCHUMACHER: But what does that do up above then...

MICHAEL CALVERT: Okay.

SENATOR SCHUMACHER: ...on the bottom line?

MICHAEL CALVERT: Yeah, bottom line, your structural balance is still positive, okay? Theoretically, your fund balance grows but it's substantially less, substantially less than what we had originally. The other thing, though, I think is important is if you go back to '18-19, you recall the cost share was roughly 40 percent General versus roughly 57-58 percent federal. By '38-39, those ratios shift. Predominantly, General Fund picks up the vast majority of Medicaid, 60 percent, and 37.1 percent is federal, okay? And that's just with the single change there of a 2 percent cap on federal funds. One of the things that Tom and I have talked about is this kind of disaggregation is all well and good, but I think there are some things that we might want to go through as far as further breakdowns. For example, with respect to Medicaid, we have different populations that we serve and there are different cost parameters that relate to those populations. We might start building in some things here that say what if it's predominate...what if your growth area is the elderly, okay? What if your growth area is with kids? You look at the cost parameters and you kind of start doing some different simulations here. Again, there are a variety of cost centers you can change and manipulate. We're looking to make some improvements to it, but again this is still linear. And if I could refer to the handout now, just for a moment, I'm just...these are just examples. I mean this not the end-all, be-all. But the first page...and forgive the chicken scratchings down at the bottom. This is a working document that I use for keeping track of a variety of different things and I kind of adjusted it to clean it up. What I wanted to do was this is a year-over-year history of actual net receipts, and then bud. base--in other words, the forecast or the certified revenue estimate. And what this does is it tracks the change on a nominal basis of revenue growth year over year. We've been working with straight-line methodology that says 4.5-4.6 percent year over year. Look at the next to the last column. Change, actual net nominal. You got everything from negatives to some positives that are double-digit, 10 percent, okay? It would be great if everything went in a straight line, but it doesn't. It varies. It's notchy. And then the comparison I make in the last column is, what was the forecast that was operative that compared? And sometimes the forecast matches fairly well and sometimes it doesn't. So you've got two things working against you. You've got variable growth rates but also you've got forecast errors. And the forecast errors are on the second page. And you can see how the forecast errors are over or under the actual. And the forecast error and the variance is in the middle. Forecast error and percentage is expressed there. The variance, whether it's over or under, is listed in the far right-hand two columns. So now you've got a third thing that tells you that the world is not a straight line and this creates the problems that we have with respect to longer range modeling, because now this gets complicated. And even though there looks to be a systematic pattern of errors, and you'll notice how the negatives and the positives tend to cluster based on this analysis, stop and think about it. This is only about maybe four cyclical observations, so statistically I'm not really sure this is going to be something to hang your hat on indefinitely, but to me it sure looks like a pattern. So those elements there cause me to just warn you, in terms of these kinds of straight-line analyses, of our problems, because they're not completely totally revealing because actual events that can't be foreseen are going to change it all and that's, again, why we build budgets on a two-year basis and we do revenue forecasts on a regular systematic basis. Some other things that I wanted to point out with respect to...on the revenue side, and I'm not picking on this particular area. It just happened to be convenient. It was on the third page. This third page is an extract from the Department of Revenue's report on business tax incentives, and I just put a little arrow next to a line that I always look at. What they do is they do ten-year projections going into the future with respect to various elements. In this particular case, it's the Nebraska Advantage Act. And you'll see at the upper left, the first arrow, the direct sales and use tax refunds, this is something that flows and impacts as to our revenue forecasts, okay, and why it's significant. And $39.8 million was the 2016 actual amount with respect to sales tax refunds as they related to the Nebraska Advantage Act. But then there are projections going out into the future. And I think the Department of Revenue does a good job. They lay out their scenarios very, very clearly and itemize how those theoretically might grow, okay, going into the future. Well, again, if you look at it, it's a very fairly consistent straight-line analysis and I think in large part it's based on kind of like aging accounts. You assume a certain number of new applicants year by year. You assume a certain lagtime in terms of when they're going to file a claim and so on and so forth, and it's a pretty good systematic view of how to do things. What's the reality? Go to page four. This is the long-run history and this includes LB775 and Advantage Act, whereas the previous page did not. It was just simply Advantage Act. Another notchy scenario and I particularly want to point out, if you look in the grayed area, that's where the Advantage Act has been in place. If you go to fiscal '16-17, the total amount, $105.2 million with respect to sales tax payments made. Look at the prior year, $72.9 (million). That's a big jump. That had an impact on, in part, our revenue results for this fiscal year that we just finished. I mean basically it jumps around and it's really...

SENATOR SCHUMACHER: What page is this on, Mike?

MICHAEL CALVERT: It's on page 4. I'm sorry.

SENATOR SCHUMACHER: Okay.

MICHAEL CALVERT: Page 4 is the actual results that I've tabulated. Now this is unaudited. You know, I picked this up off of the reports that periodically come out. But it is a reasonably accurate representation of the pattern with respect to the sales tax refunds under LB775 initially and then eventually LB775 and the Advantage Act. So again, these are all things that in an ideal world for a long-run projection you try and account for, but the irregularity of it, the black swan events that materialize--low-level radioactive waste comes to mind. I mean that materialized and took a couple years through a process of litigation to actually come to a point where we knew what we were dealing with. All of those things taken into consideration complicate the kind of exercise that I think, Senator, you'd like to see us embark upon.

SENATOR SCHUMACHER: And what this does teach, I think, the LB775 and Advantage Act, something here. The fluctuations in the amount of the total dollars that are claimed, obviously, I think--I think I'm right on this--we have very little control of that written in the present Advantage Act and LB775.

MICHAEL CALVERT: That would be my take on it, yes.

SENATOR SCHUMACHER: And so when and I'm told that sooner or later we're going to rewrite the various incentive acts to be something different, this may begin to teach us something that needs to be in there so that we have some control on the rate of claim, and so how many can be cashed in, in any given year, some mechanism, because it appears here that can, you know, cause a lot of pain if all of a sudden you have a big bill that you weren't anticipating come in just because a business decided to cash in.

SENATOR WATERMEIER: Yeah, thanks, Chairman. Mike, I'm assuming, too, the Advantage Act, the property tax issues that are claimed as well never show up on this (inaudible) here at all.

MICHAEL CALVERT: Doesn't show up as a liability in the state accounts.

SENATOR WATERMEIER: Right, the property tax refunds. And so that then directly affects TEEOSA because that all changes how that (inaudible).

MICHAEL CALVERT: Right. Oh, I mean that's a good point.

SENATOR WATERMEIER: So...

MICHAEL CALVERT: Absolutely.

SENATOR WATERMEIER: Right.

MICHAEL CALVERT: There are interactions there. Some of the other interactions, and again, I'm not trying to pick on the incentives, per se, but one of the things I worry about is under the Advantage Act there was a provision with respect to essentially withholding, that that can be captured by the company, as I understand it. And I don't have a real clear picture in terms of what flows have occurred in that regard. I am told by the Department of Revenue that they have an accounting of that and I haven't taken the time to try and figure that out. And I'm starting to worry a little bit that somehow there's...we had a very...we didn't have a very good year with respect to individual income tax receipts this past year. There might be a variety of reasons. I don't know if that is instrumental or not. I think that is something that we need to look at and investigate more in detail and understand. I'm not saying that it is. Could be a whole host of other things. I mean the ag economy obviously hasn't been good and personal income has suffered, no question.

SENATOR SCHUMACHER: You're talking to the ability of an Advantage Act participant to claim their credits by keeping their employees' withholding.

MICHAEL CALVERT: Right.

SENATOR SCHUMACHER: I think in your study at Performance Audit there was like a percentage of that, that...

SENATOR WATERMEIER: It recognized it at all, (inaudible) all.

SENATOR SCHUMACHER: Yeah. That like 40 percent of the Advantage Act was claimed or something like that.

SENATOR WATERMEIER: I don't know if it was that high. It might have been.

SENATOR SCHUMACHER: Yeah.

MICHAEL CALVERT: Yeah. And one of the things that's worrisome for me is these different credits can be claimed different ways. I mean it might be against, directly against the liability. It might be withheld; held, unaccounted for internally; it never maybe really flows through state accounts. I don't know. That's unnerving for me and it needs...we need to work on. Again, I think this is a worthwhile exercise. I think it's worthwhile doing with some regularity. I think one of the important takeaways is that the real world is a whole lot messier than a series of equations here, and how do you protect yourself against that. Back in 2004, I wrote a paper for Senator...then-Senator Beutler about the Cash Reserve Fund, what seemed to be an optimal level to have. And when I say optimal level, that is going into the next recession. So you're kind of at the tail end of your economic expansion. You're at the best place you can possibly be. Concluded that somewhere around 16 percent of your next year's revenue, thereabouts, should be held in the Cash Reserve Fund in anticipation of the next downturn. In 2020-2021, $370 million is about $480 million short. And if you look at the page where...page 2 of the handout where we have forecasting error, you can see the systematic pattern that has emerged with respect to errors positive and negative. These last two years we have had forecast errors that were...the forecasts were too high and revenues came in below. But if you look at the pattern, we're probably, if the pattern holds, we're probably at some kind of a breakpoint, or maybe that might flip around. I think Senator Schumacher is more skeptical is about that. But if you are, okay, that says in the near term, in the next year or two, you might in a situation where you need to be systematically saving for the next downturn. And just eyeball method, '20-21 starts telling me that's kind of the tail end of the next positive time period, maybe another year or two. I don't know. So one of the things we really need to keep an eye on and maybe think about some mechanisms to ensure that

that enforced savings occurs if you believe that methodology and then that concept makes sense. If it doesn't, that's fine too. But you can tell I'm kind of an advocate for it.

SENATOR SCHUMACHER: Well, that's really the only way that anybody can protect against uncertainty is to have enough in the bank that if a drought comes along we can pay the bills.

MICHAEL CALVERT: Yeah. And one of the reasons it works conceptually is that if you look at the long-run errors, positive and negative, in terms of forecast errors, they wash out. So it comes...all comes down to timing. Your forecast errors tend to be around 4 percent, plus or minus, on average, and depending upon the year that you're in, you're either running a net positive or a net negative. But somewhere along the line, it all washes out. So if you can maintain something that approximates that 4 percent error for a four-year period, theoretically, you've got enough set aside to deal with the next slowdown. Is it sized right? I don't know, I think it is, pretty reasonably. But that will be a decision for you and your successors.

SENATOR SCHUMACHER: Now if we, of course, it makes life complicated because we've changed tax laws and tax rates and everything else, so you can't look at it under an easy way, but is there a way to correct for that? Say, okay, let's assume a stable tax system with no rate changes or whatever going back to 2000 or something, and then let's see whether or not under that...and they're not fiddling with the taxes, how closely revenue growth correlates with real GDP and correlates with nominal GDP. Is GDP a predictor of that 4., whatever, 8 percent number?

MICHAEL CALVERT: I look at...I think a better predictor, I read...well, how should I say this? What's relevant to me is with respect to the revenue side and it's going to be personal income: wage and salary growth; farm income; nonfarm income; inflation, which has been virtually nonexistent so that doesn't really enter into it. For purposes of revenue forecasts, GDP doesn't work. And we experimented with that years ago. In terms of a more global view, overall, I don't know. I don't know. I think the interactions are so complex I'm not sure that that would even work. I just don't know. And I'd have to think about how to do that.

SENATOR SCHUMACHER: Well, I'm trying to find something that gives us guidance as to the probability of whether or not that revenue number should be 3 percent or 4.5 percent. Is there something that we're fairly certain on or at least more certain on that's going to happen so that we get a guess, because it's is a pretty rosy world at 4.5 percent or so.

MICHAEL CALVERT: Some would say that.

SENATOR SCHUMACHER: We're humming along pretty good. But it really is kind of a rotten world at 3 percent...

MICHAEL CALVERT: True.

SENATOR SCHUMACHER: ...and a terrible world at 2 percent.

MICHAEL CALVERT: Yeah. And we may see that between now and 2021. I understand that.

SENATOR SCHUMACHER: And the GDP projectors out there, most of the talk, and unless the folks at Bloomberg and on Wall Street are just goofy, which they might be, it shows...is projecting out a GDP growth of probably not more than 3.5 percent, probably closer to 3 percent nominal, which means that we better weight toward the 3 percent number in our guesstimate rather than the 4.5 percent. So, you know, is there something that can give us a better feel? Because what we're looking at on the revenue side is a probability distribution. What's the probability it's going to be 3 percent? What's the probability of 4.5 percent? What's the probability of 7 percent? Dan.

SENATOR WATERMEIER: Yeah, thank you, Chairman. Mike, I think you alluded to it, though, when you said you feel like the personal revenue growth, combined with the farm income, the nonfarm. I mean those are really giving Nebraska their look, not nationwide, obviously.

MICHAEL CALVERT: Yeah, and that's what we try and do. Yeah.

SENATOR WATERMEIER: Yeah.

MICHAEL CALVERT: What we try and do, we start with national data. Okay? We have a national service that provides us information. You got to have a forecast of economic data in order to run a forecast for revenue. I mean, you're hypothesizing the changes in personal income, wages, salaries, farm income, so on and so forth, influence your revenue results. And you test the past history, you come up with basically--I can show you the equations, but, I mean, it's a multiple progression technique--and you come up with results that suggest to you that this has some predictive value, some combination of variables. If that is true for past history, you assume into the future that those kind of relationships hold. Those relationships might change and that's one of the things that you have to go through as part of the forecasting effort is reexamine the variables that drive your forecasts. Okay? And we do that routinely and they really haven't changed terribly much. The point I was going to make is that when you start with national data, we then try through regression analysis to build estimates for Nebraska. So to what extent does U.S. personal income drive Nebraska personal income? And statistically we test that. We do the same with wages and salaries. We do the same with farm income. And these are all itemized in our forecast report that goes to the Forecast Board. So, I mean, that's part of our routine disclosure. So, yes, we try and personalize it, if you will, to the state. But interestingly enough, it's not the nominal values of personal income, it is the proportionate change that we use. It's change in personal income derives change in personal income tax and/or sales tax and/or whatever. So it's the nominal values. And in a lot of cases you use U.S. data just as easily as you can use Nebraska, okay, because the data tends to move consecutively. Less true of farm income.

SENATOR SCHUMACHER: And what's that data telling us over the next ten years out there? Is it telling us, are we going to see revenue growth like we have in the past?

MICHAEL CALVERT: I don't have it with me. I can send you a copy of...

SENATOR SCHUMACHER: But does that exist? Do you have that?

MICHAEL CALVERT: I have a copy of our forecasts that go out to I think calendar 2018 or 2019, I don't recall. Okay? Part of my problem is I do not have economic forecasts from a national service that go out that far. And what I have to have is quarterly data on very specific data points. There was a firm that used to publish that and we were a member. They don't do that anymore. So the two economic services that we have, they don't do long-run forecasts anymore. So if I don't have that, it becomes problematic to run revenue forecasting to go out that far.

SENATOR SCHUMACHER: Are there any services out there that do that?

MICHAEL CALVERT: Not that I know of. Well, I don't know. I haven't looked at it. I have no idea. I'm sure they won't be cheap, they never are.

SENATOR SCHUMACHER: By cheap, how many million dollars a year you talking?

MICHAEL CALVERT: Well, you're assuming that that's somehow going to save you millions of dollars.

SENATOR SCHUMACHER: Well, I know. But they're probably not a million dollars a year.

MICHAEL CALVERT: Oh, no. Oh, no.

SENATOR SCHUMACHER: So we're back to this pinching pennies when we're trying to make decisions on hundreds of millions of dollars. If there's something out there that you guys need to make us smarter...well, that's an impossibility, but it would help us guess better.

MICHAEL CALVERT: Hey, that's great. You know, I could always use a couple more economists.

SENATOR WATERMEIER: Well, that was a question. We can't do it in-house somehow? I mean, the modeling stuff I've always been fully in favor of and do whatever we can to support those ideas.

MICHAEL CALVERT: Yeah. I mean, you've got...Nebraska is part of the national economy. So national economic patterns matter. Okay? You can do extrapolations to try and relate it to Nebraska. It is a more unique economic structure, obviously, but we are a part of a national economy and we participate in it and we are subject to those influences. It has impact upon our revenues, it has impact upon our expenditures. Frankly, right now, I think our bigger risk is policy driven in Washington, D.C., more than anything else.

SENATOR WATERMEIER: Kind of a second question, Mike.

MICHAEL CALVERT: Sure.

SENATOR WATERMEIER: I've looked at this chart on page 2 you've got so many times. I always forget, why do you break your average error down differently between '84 through fiscal '17 compared to '90 through '17?

MICHAEL CALVERT: Oh.

SENATOR WATERMEIER: It would tell you that we're getting better, because it's a smaller number.

MICHAEL CALVERT: Yeah. And that was part of it.

SENATOR WATERMEIER: Is that part of it? Or is there something magical about '84? Was that when the tax incentives started?

MICHAEL CALVERT: What's that?

SENATOR WATERMEIER: Was that a reason for the tax incentives as far as having it...

MICHAEL CALVERT: No, no. This table was my effort to try and identify the systematic patterns with respect to forecast errors. I mean, that's really what drove it. Okay? But the point I started in '84-85, as I recall correctly, there was a significant change at the federal level. It was called ERTA and TEFRA, as it affected the tax system. And I wanted to get anything before that out of...and plus, we didn't have a rigorous forecasting effort prior to '84.

SENATOR WATERMEIER: Oh, I see.

MICHAEL CALVERT: I mean, it was kind of hit or miss. So it was a logical start point. And then I picked '90-91, just because it is a more contemporaneous time period. And there was a couple policy events that had been put in place shortly before that--and I can't remember what they were--and I just wanted to get that cleared out of the data because sometimes that distorts it a little bit.

SENATOR WATERMEIER: Right. The other thing that I've always admired or not admired, but noticed and appreciate when you've given this to us on Appropriations over the years and I look at it is I appreciate the fact that you got a trend there. We do, and it looks like we're trending...cycling, I should say, not a trend, a cycle that should come out and we should be better. Except if you look at the cumulative value of the years that were off, like in 2000 to 2004, cumulatively they were 20 percent off for four years in a row.

MICHAEL CALVERT: Oh, yeah.

SENATOR WATERMEIER: So that scares me in the fact that...but then in '08 to '10 it was 11 (percent). Now we've really only cumulatively gone up about 10 percent. So you could say, yeah, the cycle turns. And we could easily throw in another 5 percent miss in there and it would be right on average.

MICHAEL CALVERT: Yeah, yeah. There's been a lot in the literature here recently in terms of other states have...doing revenue forecasts has gotten to be real noisy. I mean, there's a lot of errors and a lot of variability and a lot of problems doing estimates. There was a time period when things were simpler and more predictable. The extended time period in terms of forecasting error back around '91-92 through '95-96, thereabouts, look at that forecast error. We're tenths of a percentage point.

SENATOR WATERMEIER: Right.

MICHAEL CALVERT: It was a fairly benign economy. There wasn't a lot of movement, not a lot of things to stir things up. That has all changed since that time period, both policywise...another thing that I think causes some problems for us--and I'm not trying to discourage you--but there have been a lot of tax changes over the last ten years. Well, stop to think about it. We've got a revenue forecast that's an estimate--based on economic data that is an estimate--and now we're going to layer on top of that a whole bunch of tax changes that are estimates, so you've got error upon error upon error upon error. Now your hope is, is they offset one another, from a forecaster's point of view. My guess is they don't. And they may compound. So I think that's part of the problem. There's a lot of noise.

SENATOR WATERMEIER: They certainly do compound. When you're talking about the withholding issues,...

MICHAEL CALVERT: Yes.

SENATOR WATERMEIER: ...(inaudible) being out there. And the compounding effect of "centivizing" property taxes that are being taken away from locals and how that affects at the state level. I mean, it's just monumental how it just compounds.

MICHAEL CALVERT: And there are some things that we can't know on the revenue side.

SENATOR WATERMEIER: Yes.

MICHAEL CALVERT: For example, there has been obviously a lot of talk about taxing Internet retail sales. Well, I've seen a wide range of estimates and really nobody knows.

SENATOR WATERMEIER: Yeah.

MICHAEL CALVERT: And the fact of the matter is, based on Department of Revenue's ability to report or not report in detail, we're probably never really going to know. Like we've talked about Amazon and the retail sales tax collections that were supposedly going to show up starting January 1. If they did, I don't know if they have or not. I have absolutely no idea what the dollar amount is and the Department of Revenue cannot volunteer that information. I have absolutely no way of knowing. And that's going to happen again if we ever get to the point of actually taxing retail sales of other Internet activity.

SENATOR WATERMEIER: That's why it kept bothering me when the Governor (inaudible) eliminate dollars and their potential revenue. I had no idea.

MICHAEL CALVERT: That was a roll of the dice.

SENATOR SCHUMACHER: Senator Williams.

SENATOR WILLIAMS: One of the things that I think we're trying to do in the Planning Committee is come up with an agenda of something that we could move forward. And, Mike, one of the things that you mentioned is near and dear to my heart is the building or the replenishing of the cash reserves, understanding how important it is that we provide future legislators with the opportunity to go through difficult times and that, and you kind of hinted at ways to do that. Could you talk a little bit more about that and your thoughts about thinking about whether that would take specific legislation that could be promoted by the Planning Committee? Is that something that is a philosophy that's developed in the Appropriations Committee? How would we get to the point that we would have, in essence, earmarked that when we get...when this thing turns around, when and if...not if, when it turns around that we are putting that money back away, getting that amount, whether it's 16 percent or whatever it is. What are your thoughts on that?

MICHAEL CALVERT: Sure. Well, I mean, you can go a couple different ways. Processwise, a lot comes from in here. Well, I got to stop and think. The first premise is you're basing the replenishment of the Cash Reserve Fund largely on the fact that your forecast is wrong. You're going to generate more revenue...

SENATOR WILLIAMS: Right now.

MICHAEL CALVERT: Right now. And to be honest with you, that's not a bad idea in that you're capturing what I would...the few times I have actually used this word and actually believed in it, you're capturing a true surplus, okay, and you're setting it aside. That I think is a great idea. I think you simply have to recognize that that kind of mechanism may not always work. So what do you put in place of it? You could have an Appropriations Committee that maybe...that formally or informally sets a benchmark that we're going to try to achieve by a certain date or a certain time frame, roughly, a certain level in the Cash Reserve Fund. You might give some statutory direction that it is the intent of the Legislature to try and reach this kind of level at these points in time. And it gets a little thorny to try and determine that, because these cycles are not four years good, four years bad, four years good, four years bad, it might be two years bad, four years good; I mean, it moves. But the fundamental point is, is you want a reserve at a level that is sufficiently large and useful at the tail end of the positive part of the cycle. That's what you want. Where we do run into some problems is...how you capitalize it to date is pretty clearly defined and it might need some refinement. But what we don't have is, okay, when we hit that point we already need to start to use it, how do you decide to go about doing that? Now, I mean, to me...budgeting we like to think of as a logical process. But, in fact, it's largely political, so it becomes a matter of what seems reasonable for 25 members or 33 members of the Legislature to decide. I think you can set some benchmarks, perhaps in law, perhaps by resolution, I don't know. I haven't really thought about that, but I think that's a desirable thing to consider. Now, is it enforceable? No. But it kind of sets a policy somewhere for your successors to say, okay, fine, this is where we're going to go or not go, I don't know. So long-winded nonanswer, I guess.

SENATOR SCHUMACHER: Wasn't there somewhere back in time seven years ago or something like that, I seem to remember one of these introductory sessions or something talking in terms of the two months' revenue, the 16 percent?

MICHAEL CALVERT: Sure.

SENATOR SCHUMACHER: And there was a great, wise panel that came together in 2006 or '07 and that's what was recommended to us. How much of that is...am I just dreaming up here?

MICHAEL CALVERT: Frankly, I don't really recall that, but I'm not saying that this didn't happen. Sixteen percent does approximate roughly two months, okay? There are other things...yeah, I think that's fine. But, again, where I really got started was when Senator Beutler...Senator Beutler used to harass me all the time about what's the desirable level--yeah, Peg is nodding her head, I understand that--all the time about what's a reasonable level for the Cash Reserve Fund. Never had an answer. Tom and I would go, well, don't know, whatever. So finally we kind of sat down and figured it out based on this flow and this systematic error and tried to capture the error term. Everything came up 4 percent, 4 percent. We kind of looked at it and said, okay, eyeball method, four consecutive years of good versus four consecutive years of not so good, so roughly 16 percent on a 4 percent error. That ought to cover it. It ought to mitigate what's going on. So that may have been part of the discussion of what panel you're talking about, that could be. It has ebbed and flowed over the years. In more recent years we've gotten a lot more discussion. There are outside entities that have picked up on it and helped carry the ball in that regard, which I think is all good. I think it's a good, fair, and reasonable measure. And I look at the exercise of the financial status and what we're doing here as risk assessment and evaluation of opportunities. That's part of it. If you think the risks are greater, go past the 16 percent and there might be reason for that. There might be some...and part of the planning horizon might pick up on some of these things. The risks of Medicaid being capped or being block granted, that could be huge. You know, changing the...and the reason I say that, it's one of our biggest cost centers. Similarly, pressures that you're going to have to deal with, with respect to school aid. That's one of our biggest cost centers. Significant change there is going to change the landscape for you. Okay? As long as Medicaid is as--and I'm not arguing against this--but it's an entitlement. You set the formula and you set your obligation based on that entitlement and you don't get out from underneath that entitlement unless you change the law. Same thing with school aid. You've got a formula. It determines what that number is going to be. You don't have...there are fewer and fewer things with respect to the operating budget you have discretion. When you come up against a large budget cut situation, it's going to be hard to absorb.

SENATOR SCHUMACHER: Are there any states that do forecasting differently than us? Is there any better way to get at that? It seemed to me Florida I'm remembering something about.

MICHAEL CALVERT: Fundamentally they're the same. You rely on econometric methods. If there's anything different, I don't know what it is. The model we have is a consensus forecasting where you've got the Forecast Board as an intermediary, an independent board appointed by the Legislature and the executive branch. And then you've got the executive branch doing revenue forecasts, you've got a Fiscal Office doing revenue forecasts. I'd say that not everybody does it that way. Some have...there might be an executive branch capacity to do revenue forecasts or it might be affiliated with the university. There might be a board that is essentially members of the bureaucracy and then they come out with a forecast. I'm trying to recollect how Iowa does it. It seems to me it's kind of along that line. Ours is a little bit...I know it's done the same way in other places and I think it makes a lot of sense. In fact, I had a punch list of good things in terms of the forecasting effort and we seem to hit on all of them, doing quite well, if I can lay my hands on it. This article, it says, "Does Process Trump Accuracy?" state policy reports and it goes through revenue estimating efforts and it...and this actually was a reiteration of Senator Budget and Policy Priorities. It says, consensus estimates. That's good. We fit the profile, we do consensus estimates. Outside experts, in a sense, we do, we have people from across the state. They're banking, economists, accountants, we have that kind of expertise in terms of some people that are closer to the state economy. Publicly available forecast assumptions, you want a copy of my forecast, I'll give it to you. Open meetings, all meetings are held open. We revise the forecast. Yeah, we revise the forecast a lot. I have a feeling a lot of states don't do that. So I think on that point in terms of process, I think we do pretty well.

SENATOR SCHUMACHER: Any other questions? For members of the committee and Senator Crawford, are we going down the right road here in trying to figure out a way to use a budgetary skeleton as a way to analyze how we should handle things long, long-term financially? Is there some merit in what we did today? Is it something that's "replicatable" into the future? Should we look at legislation in the framework of what impact it's going to have on that? Should we periodically review long term where revenues are going to go, whether it's realistic to think we can hold expenses at 4 percent or whether the baby boomers or somebody is going to make that an unrealistic number? Is this a framework that we can operate off? Are there better ones?

SENATOR CRAWFORD: If you don't mind, I'm not a member of the committee, but one interesting idea that I saw that was suggested from another state is that sometimes the fiscal reports, they would project out a little further what you think the impact would be. We have our regular fiscal report window for key bills, maybe. Is it the case that bills above a certain level or cost might consider a projection that goes out further? Just one idea. None of that then also gets to the issue that we talked about earlier, which is when the program is administered how we make sure we're controlling the implementation of that to watch those costs. Just two thoughts to throw out there.

SENATOR WILLIAMS: I guess I would also say, I think we have to be careful what our role is in this particular piece as it relates to the Appropriations Committee's oversight of this particular piece, where I think they spend a significant amount of time analyzing where the budget is and where it's going. I am intrigued by the idea of what we might add to the mix, if anything, as far as the concept of the Cash Reserve. You know, being sure there's...from a planning standpoint, if there's a way that we can help ensure that we build that during good times so it's there to use during times of economic stress. The other thing that it seems to me, Mike, in looking at these figures that coming from a budgeting world where, you're right, it isn't a perfect world because of what you're doing. You have the 4.57 number and then the 4 number below it.

MICHAEL CALVERT: Sure.

SENATOR WILLIAMS: And the reality is, when you look at these things it never hit that exact number.

MICHAEL CALVERT: Rarely.

SENATOR WILLIAMS: But the difference between those that makes the other numbers flow is always relatively stable. Correct? Or am I not correct there?

MICHAEL CALVERT: In my opinion, over the long run if you can maintain a reasonable Cash Reserve Fund over an extended period of time and you don't make any changes--and this is a big demand--you don't make any changes policywise that cause creation of major obligations and taxwise, you're going to be fine probably. Now, once in a while you might have an outlier. We had a couple of years that were extraordinary where we got hit with some pretty substantial percentage of revenue hits.

SENATOR WILLIAMS: Well, we had the Great Recession.

MICHAEL CALVERT: Yeah, exactly. So, yes, I think over the long run it does tend to wash out. I'll give you a rule of thumb. If you have revenue growth that's 4.6 percent year over year on the long run and you could rely upon that, your key is in terms of creating obligations going into the future--and I emphasize obligations, I am not talking just expenditures, I am talking obligations, which includes appropriations, transfers that actually are an expenditure, and tax reductions or anything that reduces revenue--so in the aggregate, if those start exceeding 4.6 percent, you're running into trouble. And that's a simple rule of thumb.

SENATOR WILLIAMS: Right.

MICHAEL CALVERT: But you've got to count all of those elements.

SENATOR WILLIAMS: But in addition to things like a Great Recession that can happen, our first presenter this morning, former Senator Loran Schmit,...

MICHAEL CALVERT: Yes.

SENATOR WILLIAMS: ...and I don't know if you heard what he talked about or not.

MICHAEL CALVERT: No, I did not.

SENATOR WILLIAMS: But he talked about four things that happened while he was in the Legislature that every one of them came through the legislative process and were estimated to...for instance, the highway deal was going to be a $200 million number over x number of years and then it ended up being clear up here,...

MICHAEL CALVERT: Yes, yes.

SENATOR WILLIAMS: LB775.

MICHAEL CALVERT: Yes.

SENATOR WILLIAMS: ...Estimated here, happens here. How do we reduce the risk that those mistakes--I'll use that term--happen?

MICHAEL CALVERT: Okay, I can address LB775 very quickly. When LB775 passed, I remember the fiscal note. We had it pegged on a per company basis, fine, in terms of the cost and what the consequences were. What we didn't know were how many were going to show up and come knocking on our door. And that's...

SENATOR WILLIAMS: And there were a whole lot more there.

MICHAEL CALVERT: There were a lot more. Part of the problem is, prior to LB775 being passed, what did we have to compare to? Even in other states you didn't have much to compare to. And you most certainly had nothing to compare to with respect to Nebraska's experience. So that's where we got hit in the short term. Plus, it was not an immediate transition, it was a slow ramp up, but that was a big part of the problem right there. The demand was well beyond expectations. But needless to say, once we got to that point we had to make adjustments because it started to...it was affecting our revenue estimates so we tried to build that in, okay? So we did.

SENATOR WILLIAMS: And I'm not asking this question to point fingers at the Fiscal Office or anything.

MICHAEL CALVERT: Oh, no. No, no, no, I understand that.

SENATOR WILLIAMS: I'm asking the question from the standpoint of the Planning Committee, if you had LB775 roads, ethanol, and the other one.

SENATOR WATERMEIER: LB312.

SENATOR WILLIAMS: LB312, those are some examples of things that affect this.

MICHAEL CALVERT: Absolutely.

SENATOR WILLIAMS: And from a planning standpoint, is there something that could be looked at? And maybe, again, that's all Appropriations and that.

MICHAEL CALVERT: Well, it's going to fall on different...fall in the laps of different people, but you just have to assure yourself and do the absolute best you can. Don't ignore it. You've got to spend time focusing on those sorts of things, do the best job you can, and understand there are risks involved. You're going to be wrong. Sorry, but that's the reality of my life for the last 40 years.

SENATOR WILLIAMS: Mine, too.

SENATOR SCHUMACHER: And kind of addressing Senator Williams, no matter where the burden shifts from, the Appropriations Committee is responsible for building a budget, figuring out how we're going to pay the bills over the next two years and maybe the next two years after that, to a planning function in which we're looking down the road ten years when what happens and will it happen that there's a whole gaggle of baby boomers hitting the system wanting to get on Medicaid. And how do we start posturing for that and an abnormal blip in the expenses of Medicaid? And that's not a problem of the Appropriations Committee to worry about what happens to Medicaid in ten years when a bunch of old baby boomers hit it. But that is probably a function that we need to start talking about and deciding if it's a real worry or if it's just a hypothetical one. What happens when all of a sudden we build another $.5 billion worth of roads and they need to be repaired and the repairs are very expensive, cost more than the roads to begin with, like our experience in the first 60 percent of the roads? That's not a Transportation Committee issue right now because they're building roads, but it is a problem somebody is going to look at in ten years if it is a problem. All those kind of issues that go lay on top of what happens if there's a change in immigration policy and all this federal stuff we can't control. But some things we can predict with reasonable certainty and how that's going to impact us and how much we should...maybe in some of those contexts, 16 percent isn't enough reserve.

MICHAEL CALVERT: And on that point, there are a couple of other resources that I wanted to point out and I'm sure you're probably aware of them. There will be a joint meeting of Appropriations Committee and Transportation dealing with roads. And what it is, is their needs plan. I think they go out 20 years, okay? And that's coming up here in the next...Jenni, when is that, do you remember? Okay, it's sometime this fall. There is a group, there is an arena, there is a venue whereby you can start bringing these points forward with respect to...okay, Roads reports in terms of needs. I asked Mike Lovelace, our analyst assigned to Roads, I said, okay, how does that match up with capacity? He says, well, they don't report on that. They say, here are our needs. My question was, what's the capacity for the existing system to support those needs? He says, that's not part of their presentation. It might be a fair question, because this is going out 20 years. Similarly, information is provided by Department of Revenue to the Revenue Committee and Appropriations here before too long with respect to incentives. There's an annual report that's published. Okay? That's one of the pages that I extracted and gave to you with respect to the Advantage Act and 77...Advantage Act sales tax refunds. That is a tough document to hack through, but there's a lot of useful information there in my estimation, because more than anything else it tells you...gives you a pretty good picture of each of those incentive acts that are in the report as to the accrued liability potential that you have that at some point in time is going to come knocking at your door looking for a refund. And those numbers are big. And fortunately, they spread out fairly well year by year, but once in a while they don't. And that's where you saw some of the spikes in that time history there and I think that's going to get worse. So that's another arena for you in terms of some of your colleagues to integrate some of those issues into your thought processes and planning and so on and interacting with them as to what you might want to consider asking questions about, so. And there might be others that I can't think of.

SENATOR SCHUMACHER: Any other questions? We're pulling up on 11:30. It ran a little bit long, but I think it was well worth it. I wish we'd have had a few more of our committee members here. What I'm trying to figure out is, how do we now take some of the stuff we're beginning to learn and turn it into something that's policy transferable, generation...not generation, two years to two years to two years, so that we have some thought of where we're headed and how do we integrate that in the future of what it is to the committee, so that we have an ongoing process of cognizance of where the pitfalls are, things that jump out at us that maybe we should tweak? I think today I'm pretty much convinced I learned one thing we should tweak is some controls over the claim rate of incentive programs so we don't get hit with a boatload one year and nothing the next that we can't control and have no idea of how that's going to affect our cash flow. And that's just a mechanic thing, that's not even philosophical. It's just...

SENATOR WILLIAMS: Problem was that the number of claims were actually down. It was the dollars per claim that were up.

MICHAEL CALVERT: Yeah, and that's one of the things that I have noticed in the data that I get monthly, Senator, is that there is an acceleration of the dollar value per claim that's pretty significant.

SENATOR WILLIAMS: Changing.

MICHAEL CALVERT: Yep.

SENATOR SCHUMACHER: Do we have a cap on...it is...

MICHAEL CALVERT: (Shakes head no.)

SENATOR SCHUMACHER: There's no cap. See, that's a lesson we need to...

SENATOR WILLIAMS: And that could be...

SENATOR SCHUMACHER: ...one of the things we may be able to learn.

MICHAEL CALVERT: By the way, I want to thank you. This is the first opportunity I have ever had to talk to the Planning Committee.

SENATOR SCHUMACHER: Well, you'll be back more often, chances are.

MICHAEL CALVERT: Appreciate it, I think.

SENATOR SCHUMACHER: Do we have a motion to adjourn?

SENATOR WATERMEIER: No. Well, what about our future meetings though and stuff and who...what do you have...thinking for September 15, because you had talked about building a base and then switching gears.

SENATOR SCHUMACHER: Right.

SENATOR WATERMEIER: So you do what you want, I'm just curious what you're thinking.

SENATOR SCHUMACHER: Well, I'm thinking that this was not a bad exercise...

SENATOR WATERMEIER: It was good.

SENATOR SCHUMACHER: ...and that we maybe should even pick up and expand upon it a little bit. Hopefully, we'll have more people here,...

SENATOR WATERMEIER: Yeah.

SENATOR SCHUMACHER: ...because I kind of look at this as the think tank that's got to...if the Legislature is going to take leadership in the state, it's not just a Governor comes in and, oh, we're going to do this, that, or the other thing and four years or eight years later something else. We need to have a good sense of where we're going and where we've made mistakes and I think maybe an extension of this one might be something on board for next month. Is the Economic Development Committee...

SENATOR CRAWFORD: We're planning on September 15.

SENATOR SCHUMACHER: The same day?

SENATOR WILLIAMS: The fifteenth?

SENATOR CRAWFORD: Same day, September 15.

SENATOR SCHUMACHER: Same time. Keep that together. Okay. And if there's any suggestions or if any light bulb goes off and says, say, I'm interested in learning more about this, then let's ask for some research to be done on it.

SENATOR WATERMEIER: We'll give you those questions and you can kind of sort them out.

SENATOR SCHUMACHER: Yeah, we'll see if we can get Jerry or someone there to take a look at it and let's...this is a massive learning experience and, hopefully, one that extrapolates into some type of policy recommendations or, at the very minimum, the committee being able to stand up when something starts happening on the floor that pops up out of nowhere and looks crazy as hell if you know the discussions we've had here, to be able to stand up and say, whoa. This may not be what we want to do, because we've learned something maybe.

SENATOR WATERMEIER: And, realistically, we probably only have three meetings left, unless you want to meet in December. So you're talking about three meetings.

SENATOR SCHUMACHER: Right, so three meetings before the session starts.

SENATOR WATERMEIER: Right.

SENATOR SCHUMACHER: And then we'll decide maybe, too--we didn't do it this year, haven't done it some other years--is whether or not we should actually meet during the session to analyze what stuff is moving through the pipeline to say, wait, this is a problem one.

SENATOR WILLIAMS: Also, depending on what we learn and what we want to talk about, we may want to have a spot on the agenda when all the senators do their...I can't think of the...the Legislative Council meeting. If this thing about--I keep harping on it but not meant to be--but building a reserve, for instance, is something we need to have everybody thinking about that in the background, the importance of those kind of policies.

SENATOR SCHUMACHER: With, I mean, the raw reality is, with no great emergency we've dropped back our reserve almost 50 percent. Wow!

MICHAEL CALVERT: Well, I'd characterize it as no great...no great trigger.

SENATOR WILLIAMS: (Inaudible) more than just a...

MICHAEL CALVERT: Well, no great trigger that you can readily identify as to why things are happening the way they're happening. I don't understand why it did, but it did.

SENATOR SCHUMACHER: All right.

MICHAEL CALVERT: Thank you.

SENATOR SCHUMACHER: Motion to adjourn? Thank you.

SENATOR WILLIAMS: So move.