

Legislature's Planning Committee
One Hundred Fifth Legislature

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PLANNING COMMITTEE

REPORT AND RECOMMENDATIONS

PURSUANT TO NEB. REV. STAT. §50-1403

2017 & 2018

Adopted December 14, 2018

**REPORT AND RECOMMENDATIONS OF THE PLANNING COMMITTEE
PURSUANT TO Neb. Rev. Stat. §50-1403
2017 & 2018**

In 2009 Section 50-1402 established a permanent nine member special committee of the Legislature, and Section 50-1403 instructed it to collect and analyze wide ranging data about the state, identify significant issues, set goals, and propose legislation. From its inception the Committee contracted with the College of Public Affairs and Community Service at the University of Nebraska at Omaha to research data and identify issues of future importance. That work is compiled at <https://nebraskalegislature.gov/reports/lpc.php> and <https://www.unomaha.edu/college-of-public-affairs-and-community-service/center-for-public-affairs-research/programs/nebraska-state-policy-initiative.php>. Jerry Deichert, who is retiring from the College in 2018, is recognized by the Committee for his dedication and decade of assistance to the Committee.

Planning Process

The planning process consists of three phases of analysis. (1) Systems analysis: a snapshot of conditions existing at the present moment, i.e. the location of a vehicle, the horsepower of an engine, the amount and type of fuel on board, the cubic feet of the passenger compartment; (2) Projection analysis: on current course and subject to encounters with known forces - what is the range of probabilities of an occurrence at future points in time, i.e. the storm cone of a hurricane, the path of a comet, the lifespan of a being; and (3) Trajectorial analysis: the intelligent application of available forces or interventions to alter an otherwise probable outcome, i.e. a gentle nudge of an asteroid in deep space to cause it to strike or miss a celestial object, turning on or off a gene to alter an organism's probable development, simply turning a steering wheel to cause a vehicle to go north instead of east.

Planning Committee Priority Bill Authority

In its first eight years the Committee succeeded in systems analysis. It amassed data and identified significant issues. It, however, failed to set goals and propose legislation. The inherent conflict between the echoes of the past and clatter of the present on one hand, and the almost imperceptible beckoning of the future on the other hand, made the legislative mandate to set goals and propose legislation far more challenging. Frustrated by the inability to make priority bill designations, in 2017 the Planning Committee proposed a change to the Permanent Rules to give it the ability to prioritize a number of bills. That proposal received initial approval from the Legislature but subsequently fell victim to an unrelated Rules debate that was settled only by plenary abandonment of all proposed Permanent Rule changes.

Recommendation: The Planning Committee recommends the Legislature's rules be amended to give the Committee authority to designate an allotment of priority bills.

Uncontroverted Projected Trends

In 2017, budgetary constraints reduced resources available to the Committee by 50%, limiting resources for new data compilation. Thus, the present Committee focused on an effort to set goals

and propose legislation based on already compiled data. The Committee conducted an overview of the accumulated data and identified the most obvious issues. Three uncontroverted trends are projected:

1. Nebraska's population is becoming more and more concentrated in a handful of its most populous counties, principally Douglas, Sarpy, and Lancaster, with two thirds of the counties showing dramatic and sustained population loss that correlates with the increase in agricultural efficiencies since the 1920's.
2. Nebraska's population is getting older and will continue to age. This follows as a natural consequence of the data showing that a sufficient replacement population was not born and thus cannot be. The probability that the short fall in births will be covered by youthful in-migration offsetting out-migration and natural deaths is low.
3. The state's population is becoming more racially and ethnically diverse.

It became abundantly clear that these trends and their natural consequences will have profound impact on the State and the essence of Governance: the bringing into being of a future defined by the collective Will.

MIKE – A New Tool to Forecast Long Term Consequences

The Committee confronted a stark reality: In a system where borrowing money is prohibited by a Constitution that is unlikely to be changed, the capacity to adapt and modify a trajectory is restrained by the revenues that can be raised through taxation or from Federal appropriation, the expenditures that can be cut, and the cash reserves on hand. The Committee made the unprecedented move of asking the Legislative Fiscal Office for assistance in dealing with that fiscal reality. Mike Calvert and Tom Bergquist developed a powerful, however still rudimentary, tool to project out over a decade or more the impact of revenue changes, spending commitments, or modifications in Federal policy. The tool, nicknamed MIKE (*Multiple Input Key Estimator*) in honor of Mike Calvert who retired in 2018 after 35 years of service as the Director of the Legislative Fiscal Office, enables visualization of how seemingly small incremental changes can cumulate and compound with significant consequences over time. MIKE can give projections of the long-term fiscal impact of revenue and expenditure measures as well as changes in federal policy. The College of Public Affairs and Community Service is currently assessing the tool in an effort to enhance its user friendliness and graphical capacity. Its ultimate effectiveness rests with the willingness of the Legislature to permit long term fiscal consequences to influence the political expediencies of the present moment.

Strong Cash Reserves

In spite of tools like MIKE, and a myriad of expert services, attempts to project the future have a propensity to fall short. There are simply too many variables and unforeseen events possible, any one or a combination of which could have dramatic negative impact on an entity's finances. In the normal business situation, debt financing is the common tool used to bridge over the troubled waters. In the case of the State of Nebraska, the State Constitution prohibits use of debt. The tool fashioned by the statutes to minimize the need for sudden unplanned tax increases or painful and costly program abortions is a strong reserve of cash.

Strong cash reserves also can be structured and augmented with proper funding to function as an in-house bank. Under such a paradigm, money can be “loaned” for capital projects and exceptional long-term investments. When used as such, they require rigorous legislative self-discipline in adhering to the loan repayment schedules.

Recommendation: The Planning Committee recommends the Legislature pass legislation to formalize processes for augmenting the cash reserve to facilitate internal "loans" for capital projects and exceptional long term investments and to establish a repayment protocol.

Depletion of Cash Reserves

During the past two biennial budgets cash reserves were approximately halved, from approximately \$700,000,000 to \$300,000,000. Although the reserves are intended to serve the function of a shock absorber smoothing out the fiscal road in rough times, this dramatic halving occurred during a time of reasonably normal economic conditions. Simply put, the draw down on reserves meant expenses were not cut enough or revenues were not raised enough. In either case the trend is most disturbing, and should it be permitted to continue, a fiscal crisis will ensue. The restoration of the cash reserves, principally held in state’s “Rainy Day Fund”, over the course of the next two biennial budgets is absolutely essential if the state is to meet its obligations and be able to adapt to the unmistakable challenges projected by the data accumulated by the Planning Committee over the last decade.

Priority Recommendation:

The Planning Committee therefore makes a singular and urgent priority recommendation to the Legislature: Restore the Rainy-Day Fund to two times an average month’s revenue and, absent significant deterioration in the state’s economy, do it over the next two biennial budgets.