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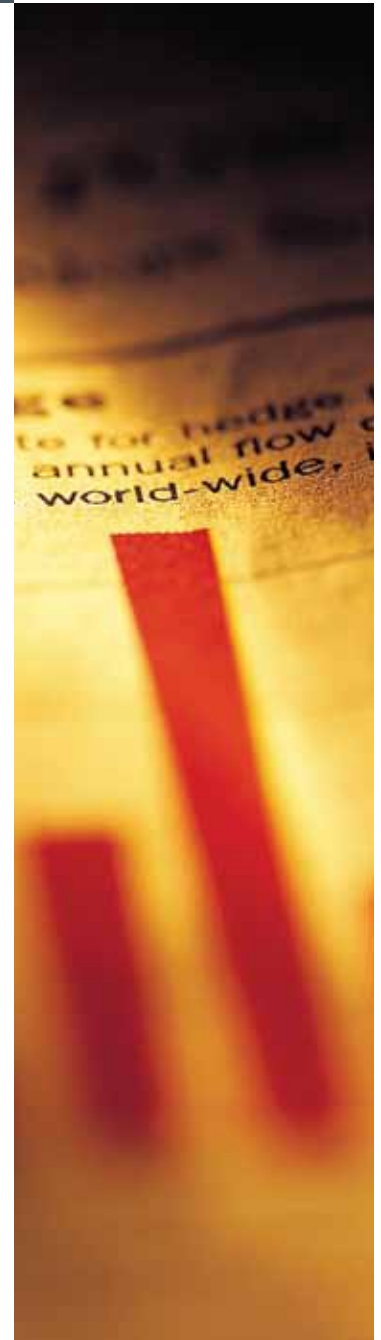
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Nebraska's Spending Habits: Are We Frugal or Frivolous?

Nebraska Constitutional officers and Legislators challenged the Platte Institute for Economic Research—following our 2008 release of “Nebraska’s Tax Competitiveness: Should I Live in Nebraska?”—to propose actual reductions in state spending. With great excitement we continue that conversation with this study, “Nebraska’s Spending Habits: Are We Frugal or Frivolous?”

The mission of the Platte Institute is to advance public policy alternatives that foster limited government, personal responsibility and free enterprise in Nebraska. The two pioneering studies by Dr. Ernie Goss underscore our mission.

This study was independently produced for the Platte Institute for Economic Research by Ernest Goss, Ph.D., of the Goss Institute in the spring of 2009. Any errors or misstatements contained in this study are solely the responsibility of the author. A copy of the principal investigator’s biography is provided at the end of the full study, which is available at www.platteinstitute.org.



Introduction

This study, authored by Dr. Ernie Goss, the MacAlister Chair and Professor of Economics at Creighton University's College of Business, provides compelling evidence of how we spend our money compared to bordering states and the country as a whole. It also offers suggestions as to where reductions are possible and recommendations as to how to accomplish those reductions.

One of the major findings by Dr. Goss, which left an impression on us, is the following:

» In 2007, if state and local governments in Nebraska had adjusted their spending to match that of its neighbors, overall savings would have been \$1.97 billion or \$1,110 per capita. If on the other hand, state and local governments in Nebraska had adjusted their spending to match the U.S. average, overall savings would have been \$932 million or \$525 per capita.

Is there a reason why Nebraska spends so much more than its neighbors or the U.S. average? What benefits do Nebraskans gain over citizens of neighboring states by funding this extra spending with their tax dollars? This study by Dr. Goss continues our dialogue about how to make Nebraska a better place for those living here now and more attractive to those willing to move here. Most importantly, this study also offers recommendations for reducing spending in five key areas in Nebraska:

- » Higher Education
- » K-12 Education
- » Public Welfare
- » Highways
- » Public Safety

By using this study in concert with "Nebraska's Tax Competitiveness," we believe meaningful tax relief can be brought to the state, which moved from having the seventeenth highest tax burden in the nation in 1992 to ninth in 2006.

Executive Summary

I was asked to profile state and local government spending in Nebraska and compare it to the U.S. and to the state's geographic neighbors. In my previous published research I concluded that, after controlling for other important economic characteristics, state and local taxes have negative impacts on economic growth.¹ Furthermore, recent research has concluded that the strength of this relationship has increased over the last decade.² This study builds on this past research.

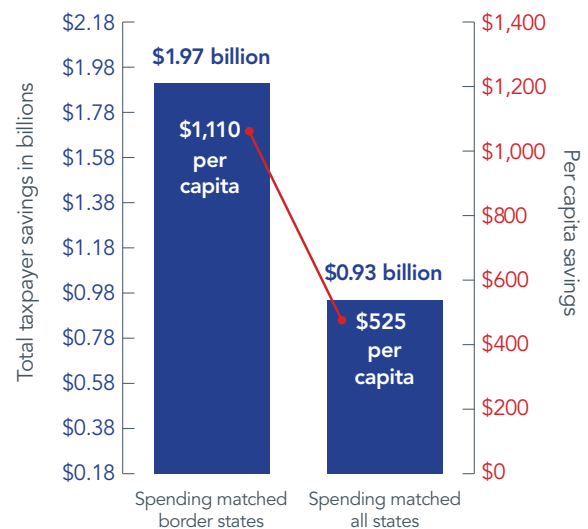
In the analysis that follows, I examine the major spending categories of state and local jurisdictions that include spending for K-12 education, higher education, public welfare, highways and public safety. This study summarizes my work on this project.

Overall spending:

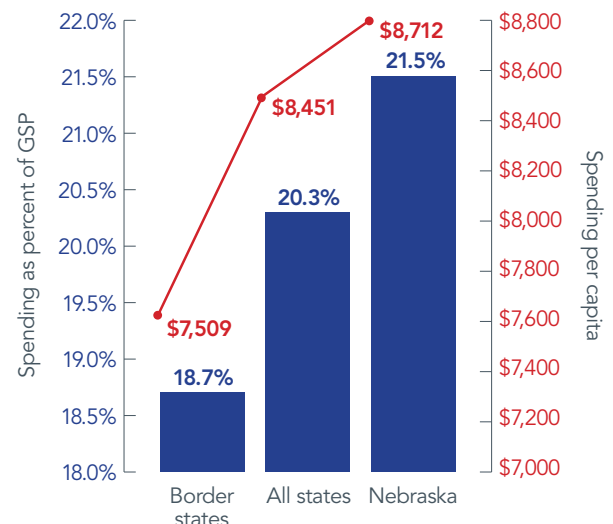
- » In 2007, if state and local governments in Nebraska had adjusted their spending to match that of its neighbors, overall savings would have been \$1.97 billion or \$1,110 per capita. If on the other hand, state and local governments in Nebraska had adjusted their spending to match the U.S. average, overall savings would have been \$932 million or \$525 per capita.
- » Between 1993 and 2006, state and local spending per capita increased by 82 percent for Nebraska, by 83 percent for all U.S. states and by 77 percent for states bordering Nebraska.³
- » In 2006, state and local spending as a percent of GSP⁴ was 21.5 percent for Nebraska, 20.3 percent for all U.S. states and 18.7 percent for Nebraska's neighbors.
- » In 2006, compared to bordering states, Nebraska spent a greater share of its GSP on utilities,⁵ higher education, K-12 education and public welfare but a smaller proportion on public safety.
- » Six of the thirteen high performing states, in terms of income and employment, did not assess an indi-

vidual income tax on their workers while all of the fourteen low performing states levied an individual income tax on wage earners; thus pointing to the benefits of restraining government spending.

Savings to Nebraska Taxpayers if Spending Matched Border and All States, 2007



Overall State & Local Spending, 2006



Recommendations:

- » It is recommended that Nebraska limit the growth in government spending to the rate of inflation plus the rate of population growth until Nebraska's spending, as a share of GSP, matches that of its neighbors. After that, spending should match the growth in the state's personal income.
- » It is recommended that Nebraska adopt the Texas *Where the Money Goes* system so that individuals and businesses can better determine the effectiveness of government spending.
- » State and local government at all levels should establish a task force for their jurisdiction to review opportunities to privatize publicly provided recreation and entertainment amenities including recreation facilities and youth recreation leagues, music, theater, sports venues and park lodges.
- » Between 1996 and 2007, state aid to local subdivisions to support homestead exemptions advanced by an annual compound growth rate of 8.0 percent. Future growth should not exceed the rate of inflation plus population growth.
- » Growth in state aid to K-12 education should not exceed the rate of inflation plus the rate of growth in the K-12 student population in the state.

Higher education spending:

- » Nebraska outspent both the U.S. and its neighbors in terms of higher education spending per capita. In terms of per capita growth, Nebraska's higher education spending increased at a rate similar to the U.S., but at a rate greater than that of the states surrounding it.
- » In terms of higher education spending as a share of GSP, Nebraska has consistently outspent both its surrounding states and the U.S.
- » In 2006, Nebraska appropriations per full-time equivalent (FTE) college student were \$6,999. This compares to \$6,325 for the average U.S. state, or 10.7 percent less, and \$5,801 for Nebraska's

bordering states, or 20.7 percent less. Tuition charges were a much smaller percentage of total higher education revenues for Nebraska than for its neighbors or for the average U.S. state.

- » In terms of National Science Foundation grants per FTE, compared to its neighbors, Nebraska ranked fifth, with Kansas in sixth place and Missouri in seventh or last place.
- » In 2007, Nebraska would have saved a total of more than \$193 million, the equivalent of \$109 per capita, if its higher education spending as a percent of GSP matched that of bordering states, and more than \$350 million, or \$197 per capita, if it equaled that of the U.S.

Recommendations:

- » Reduce Nebraska's appropriations per FTE for higher education to the current regional average (region includes Nebraska and its six neighbors).
- » Increase its tuition per FTE for higher education to the average of Nebraska and its neighbors.
- » Implementation of these two recommendations above would have saved the Nebraska taxpayers approximately \$104 million in 2007 alone. This would result in a reduction in total state appropriations going to Nebraska's higher education institutions of approximately 7.0 percent. In order to accommodate the reduction in state appropriations, public universities and colleges should reduce redundant specialized programs. For example, Chadron State University, the University of Nebraska-Kearney, the University of Nebraska-Omaha, Peru State University and Wayne State University all offer an undergraduate degree in Criminal Justice. The state of Iowa supports only two such programs, one at Iowa State University and the other at the University of Northern Iowa.

K-12 education spending:

- » Nebraska has been raising the amount it spends per K-12 student at a greater rate than either its neighbors or the U.S. While Nebraska's bordering states boosted their combined per-student spending by 32.8 percent between 1999 and 2006 and the U.S. by 32.7 percent, Nebraska's climbed by 34.4 percent.
- » Data indicates that Nebraska spends more on K-12 education due to the state's lower student to teacher ratios and to the state's much lower average number of students per school district.
- » Savings to Nebraska is possible if it were to reduce its K-12 education spending per student to the level of its neighbors. Data indicates that if Nebraska spent on a per student basis the same as its neighbors, the state would have saved \$42.6 million in 2006 alone.

Recommendations:

- » Based on this statistical model of all U.S. school districts and 2006 data, Nebraska's spending on K-12 education per year would decline by 1.1 percent, or over \$31 million, if there were one school district per county instead of the current 254 school districts. Likewise, Nebraska would have saved almost \$102 million, or 3.7 percent in 2006, if the state's student-teacher ratio rose from its current level of 13.83 to the national median student-teacher ratio of 15.11.⁶
- » Nebraska should grant new hires the option to choose a defined contribution plan (DC), which non-career employees may prefer over the traditional defined benefit plan (DB). This would reduce the cost of retirement funding for employees. Pay and benefits for teachers and administrators are heavily backloaded, penalizing non-career teachers that leave the education industry. Augenblick and Associates, based on an analysis of the retirement systems of Arkansas, Idaho, Indiana, Maryland, Mississippi, Utah and West Virginia, estimated the savings by moving

from a defined benefit (DB) to a defined contribution (DC) plan. The researchers concluded that states could save as much as 3 percent of a teacher's yearly salary by adopting a DC plan. This would mean a yearly savings for Nebraska of roughly \$33 million just for instruction personnel.⁷

- » School district data for 2006 shows that the state's low enrollment and high enrollment school districts have the highest cost per pupil. It is estimated that school district costs would decrease by \$556,000 by increasing Nebraska school district enrollment from 1,000 to 2,000 pupils. At the other end of the spectrum, it is estimated that school district costs would increase by \$438,000 by increasing enrollment from 40,000 to 41,000 pupils.
- » In order to bring Nebraska's K-12 spending in-line with its geographic neighbors, the state should limit the growth in state aid per student for K-12 education to the rate of inflation plus student enrollment growth.
- » The Nebraska Unicameral could assist K-12 education in the state by adopting a three-year pilot program that would permit local districts to contract with private schools or other nearby public school districts to educate some of their students.⁸
- » The State of Nebraska should adopt the "65 Cent Solution." Across the nation, education reformers are pushing the program entitled First Class Education. This program requires that at least 65 cents of every dollar in a school district's operational budget goes into the classroom. Adopting this solution would increase direct instruction from \$1.096 billion to \$1.133 billion and reduce administration funding from \$130.2 million to \$56.1 million. This would create a yearly savings of \$37.1 million.
- » Nebraska should reform rules for calculation of highest average salary to reduce pension spiking practice on the part of K-12 teachers and administrators.

Public welfare spending:

- » As expected, high economic performing states spent a smaller share of their government expenditures on education and public welfare, while low performing states focused more of their spending in both areas.⁹
- » Between 1993 and 2006, Nebraska's growth of 120 percent in public welfare spending has been slightly less than that of its neighboring states' 123 percent, but well over the 106 percent of the U.S.
- » As a percent of GSP, Nebraska's public welfare spending was only slightly above that of its border states in the years spanning 1993-1999 and was well below that of the U.S. – but climbed above surrounding states and the U.S. between 2000 and 2006.
- » If Nebraska had spent the same percent of its GSP in 2007 on public welfare as did the six states on its boundaries, it would have saved \$143 per capita that year for a total savings of \$252,935,931. If it had spent at the level of the U.S., it would have cost Nebraska \$122,645,633 more in total in 2007, or \$69 per capita.

Recommendations:

- » Nebraska should attempt to gear Medicaid subsidies to the beneficiary's income and possible health risk. Nebraska should also establish other features, such as cost sharing, to prepare families to transition to private coverage.
- » Nebraska should provide a range of Medicaid coverage options such that beneficiaries should not be forced to buy a policy with a government-dictated list of benefits and coverage mandates.
- » Nebraska should insure that Medicaid beneficiaries have easy access to information about the private and public health insurance coverage options that are available to them. Once the individual is provided more consumer-friendly information and financial resources, they can more easily select the insurance that best meets their needs.¹⁰

- » Nebraska should attempt to expand health care cost information by encouraging health care providers to adopt programs such as Alegant Health's "My Cost" tool. This on-line tool, if implemented at medical facilities across the state, would produce significant savings for the state by supplying a much higher degree of cost transparency. By providing financial incentives for Medicaid recipients, those covered would be provided with a list of prices for frequently purchased services, in addition to information on financial assistance programs for cost-prohibitive services. Over the past two years, "My Cost" has provided 37,000 consumers with health price information. The tool could query payers for eligibility and benefit information for a given Medicaid patient. To date, seven payers are participating in the program and Alegant Health expects many more in the months to come. Tommy Thompson, former secretary of the U.S. Department of Health and Human Services, said of the application, "These are the kinds of breakthroughs that are going to allow transparency to come front and center."
- » The Beatrice Development Center should be privatized. Total savings to the state for Mosaic, a private, religious affiliated organization, taking over the facility would range between \$4.2 million and \$7.3 million depending on the configuration of the care facility.¹¹
- » There are several states testing new technologies that reduce staffing costs and are trying to get at the issue of providing what an individual needs versus what they want. Indiana is currently testing *REST ASSURED*, a project that maximizes the use of two-way video systems that can support those who need minimal support but cannot live completely independent in the community. Thus far programs like this are showing increased consumer satisfaction with lower cost. Nebraska should examine the potential of such a system.
- » The central key to solving the cost issue for Nebraska's Medicaid system is how the Medicaid state plan is written paired with the inefficiencies

of current case management systems. Most case management systems are coordinated by state employees who see everything as an entitlement for their clients and as a result, through individual care plans, drive costs higher for the provider. In other words, the case management systems in most states, and particularly in Nebraska, need significant reform, while disempowering them in a way that does not drive up costs.

- » It is contended that the key may rest with a consistent and equitable assessment for each individual and that funding should be tied to those needs and not be based on any group average. This may seem simple but when case managers play such a key role in driving costs we should be looking at this recommendation closely.
- » State Medicaid policy should encourage more flexible supports and regulations that are necessary and valued by the consumer.
- » It is recommended that particular attention should be paid to the elimination of rules and regulations that are tied to a facility or license rather than basic health and safety assurances and individual needs; additionally administrative requirements should be reduced.
- » Consider program models that can reduce costs and provide high consumer satisfaction: Mosaic, Inc. Adult Foster Care, often called host homes, is highly personalized, highly cost effective and often significantly less expensive than a group home for example. Supported living, for those who are in group homes, but could thrive in less restrictive settings, also can provide similar results. Supporting individuals in their own home with cash payments to family members can also achieve the same results.

Highway spending:

- » In total spending growth on highways and in spending growth per highway mile, Nebraska trailed both its bordering states and the U.S. between 1993 and 2006.
- » From a longitudinal standpoint, Nebraska, its neighbors and the U.S. all reduced their spending as a percent of GSP on highways between 1993 and 2006.
- » Nebraska could have saved a total of \$109,616,983, or \$62 per capita, in 2007 if it had spent only the percentage of its GSP in 2007 its adjoining states did; if it had spent as little as the U.S. of its GSP, it would have realized a \$320,620,061, or \$181 per capita.
- » The top economic performing states spent the same share of their GSP on highways (1.2 percent) as the bottom performing states (1.2 percent) in 2006. Moreover, the pullback in highway spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states (-14.3 percent) than low performing states (-7.4 percent).

Recommendations:

- » With costs rising and available funds falling, a vast majority of U.S. states are considering Public Private Partnerships (PPPs) to improve their road networks. PPPs are being increasingly used to leverage the strengths of the public and private sectors and infuse the transportation system with much needed funding and reduce government outlays. PPPs furnish new sources of private capital for highway projects and encourage development of new techniques and methodologies for increasing effectiveness and lowering costs. Some of those techniques may include traffic lights on entrance ramps, rapid road maintenance, additional incident management resources, electronic congestion monitoring and variable toll pricing based on the congestion level of the roadway.¹² Nebraska should evaluate such a program.

Public safety spending:

- » Nebraska has grown its public safety spending at a much greater rate between 1993 and 2006 than its border states or the U.S.
- » Per capita, Nebraska consistently spends slightly less than its neighboring states and substantially less than the U.S. on public safety.
- » Both the U.S. and Nebraska's border states spend a greater percent of their GSP in public safety than does Nebraska; therefore were Nebraska to match its expenditure on public safety to that of either the states that surround it or the U.S., greater expense would result to Nebraska taxpayers.
- » The top economic performing states spent a much larger share of their GSP on public safety than the bottom performing states. Moreover, the pullback in public safety spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states than low performing states.

Recommendations:

- » The state should evaluate and potentially remove early retirement subsidies for public safety employees.
- » Nebraska should reform rules for calculation of highest average salary to reduce pension spiking practice on the part of public safety employees.
- » Nebraska should grant new hires the option to choose a defined contribution plan, which non-career employees may prefer over the traditional defined benefit plan. This would reduce the cost of retirement funding for employees. Pay and benefits for public safety employees is heavily backloaded, penalizing non-career employees that leave the industry.

Chapter 1: Does Nebraska Need to Change Its Government Spending Trajectory?¹³

Population, Employment, Income, and Taxes

Between 1995 and 2005, Nebraska's population growth rate of 7.3 percent has lagged average border state¹⁴ growth by nearly four percentage points. Even more alarming, the state's school-age population has declined by 3.4 percent during this time span. Even retiree population growth is relatively stagnant at 2.5 percent when compared to the national average of 10 percent for 65 and older. The issue isn't the availability of jobs; it is the quality of jobs. Over the past decade, Nebraska has maintained an unemployment rate that essentially indicates full employment. Today's society is much more mobile than two or three generations ago—today's generations are able and willing to relocate for better opportunities and quality of life. This creates special economic problems for states such as Nebraska that have traditionally not fared well in terms of migration and have experienced high growth in state and local government spending.

This study focuses on the state's economic climate, specifically as it relates to the excessive growth in state and local government spending, and how it can be improved for rural and urban residents, for young and old, for well-educated and for less well-educated. Considering the many outstanding qualities of this state, it is often asserted that the state's relatively poor economic performance has been driven, at least in part, by a high tax burden. I begin by examining the present situation and recent trends in terms of Nebraska population, employment, income and taxes. Population is, of course, of fundamental importance because people working

and creating jobs fuel economic growth. I focus attention on the age distribution of the population since economic potential and public services demands depend not only upon overall population, but also on how the population is distributed across various age groups. I examine employment and income growth as they relate to government spending since they represent broad measures of economic health and are often the focal points of government action to promote economic development broadly.

Two major economic growth indicators highlight Nebraska's lethargic economic growth (as measured by Gross State Product, or GSP) and the state's lagging population growth.¹⁵ Table 1.1 summarizes the change in several demographic and economic factors for Nebraska, bordering states and the U.S. between 1995 and 2007. Nebraska's employment has grown at the same pace as its neighbors, but at a much weaker rate than the U.S. Moreover, Nebraska's growth in wages and salaries trailed both its neighbors and the U.S. between 1995 and 2007; and domestic migration has been an especially challenging issue for the state over the same time span.

Furthermore, Nebraska has been less successful in restraining state and local tax growth. Some contributing factors to Nebraska's relatively slow economic growth are under the control of policymakers. In particular, government spending and taxation patterns affect, and are affected by, the rate of economic growth in the state. Thus, between 1995 and 2007, Nebraska's state and local taxes grew by 67.8 percent compared to 59.1 percent for bordering states and 66.0 percent for the U.S. Nebraska's heavier tax burden is even more pronounced when measured per capita with growth of 56.4 percent versus 43.1 percent for bordering states, and 47.4 for the U.S. Clearly this data indicates that to compete in the global economy, Nebraska must scrutinize its government spending and remain vigilant in slowing its growth.

Table 1.1: Growth 1995–2007

	<u>Nebraska</u>	<u>Border States</u>	<u>All States</u>
GSP	80.0%	88.0%	90.0%
Population	7.1%	12.1%	13.3%
Population change from domestic migration	-43,278	+1,582,623	n.a.
Domestic migration rate ^a	-2.6%	+9.1%	n.a.
Employment	15.6%	19.0%	21.4%
Wages & Salaries	80.7%	84.8%	86.1%
Total state & local taxes	67.8%	59.1%	66.0%

^aDomestic migration refers to the number of net migrants to other U.S. states divided by 1995 population. Sources: U.S. Census Bureau, Bureau of Labor Statistics and Bureau of Economic Analysis

Nebraska's Economic Future:

What if We Do Nothing?

In this section, the future economic outlook for Nebraska is examined based on current trends of population, income and employment growth assuming no significant tax policy changes are made and government spending continues its current trend. Current national and regional trends are also assumed to remain the same. This second assumption can be particularly tenuous. Surrounding states seem especially sensitive to competition from neighboring states so tax policy changes to accommodate greater government spending that alter the state's relative tax burden can be expected to produce significant impacts.

Population

As individuals contemplate the benefit of living in Nebraska or beginning a business here, it's equally important to look at the projected future climate as well as current conditions. Table 1.2 presents projected population growth for Nebraska and for the United States between the years 2006 and 2016. Overall, the United States population is expected to grow by 7.7 percent over this period while Nebraska's population is expected to grow by only

5.2 percent. This is consistent with recent trends in which Nebraska's population has grown at a slower rate compared to both national and regional averages. More alarming is the projection of population growth for those between the ages of 20 and 44, or individuals who are of prime working age. The Nebraska work force is expected to decline by 0.4 percent while the national population in that age group nationwide is expected to grow by around 1.5 percent. Nebraska's fastest growing population will be of those over age 65, where growth is expected to be 18.4 percent. However, even this is less than the expected growth in the elderly population nationwide of 25.1 percent.¹⁶

Table 1.2: Projected Population Growth, 2006-2016¹⁷

Age Group	Nebraska	United States
20 - 44	-0.4%	1.5%
Over 65	18.4%	25.1%
Overall	5.2%	7.7%

Overall, both in Nebraska and nationwide, relatively slow growth in the prime working-age population and relatively high growth in the elderly and school-age populations will create fiscal pressures from increasing demands for public services but coupled with slow growth in the tax base because of the slow growth in the prime working-age population. This pressure will likely be relatively more intense in Nebraska, compared to the rest of the nation, because growth in the prime working-age population is expected to be negative for Nebraska. The lack of growth in this age bracket will slow growth in jobs for this age cohort as well as across the full age distribution of the work force.

To some degree, the slow growth in prime working-age adults spirals. That is, slower growth in workers combined with higher demands for public services from school-age individuals and the elderly will produce rising tax burdens which further undermine job growth. That is, will prime working age adults subject themselves to the squeeze that is projected to take place in the years ahead as the working-age population decreases and demand for public services increases?

Employment and income

The trend in employment and income in Nebraska, for much of the population, presents a less than optimistic outcome as well. As Table 1.3 shows, over the period 2006 through 2016, employment in Nebraska is expected to grow by 5.8 percent based on recent patterns, while employment for the nation is expected to grow by approximately 8.5 percent over the same period. The relatively slow rate of employment growth is primarily driven by the projected decline in Nebraska’s population between the ages of 20 and 44.

Furthermore, total personal income is expected to grow by around 61.8 percent in Nebraska versus 65.9 percent nationwide. Based on these projected growth rates in income and employment, and assuming that median household income grows in proportion to total income, Nebraska’s household income should grow from \$46,587 in 2006 to \$75,378 by 2016. Correspondingly, under the same assumptions, the median household income for the nation will grow from \$46,071 in 2006 to \$76,432 in 2016. Note that, according to these projections, the income of the median household in Nebraska will drop below the national median in the coming decade. Taken together, the trends reported above in population, employment, and income and the associated projections, indicate that Nebraska will become a smaller part of the U.S. economy over the next decade if economic growth in the state continues on its present trajectory. Combined with higher tax burdens resulting from growing state and local government spending in Nebraska will mean a less hospitable economic environment than that existing in other states.

Taxes

Given this population and economic growth, estimates of Nebraska and U.S. tax burdens over the next decade are developed. Between 2006 and 2016, tax collections per capita will grow by 53 percent in Nebraska, while growth at the national level is expected to be 46 percent. This growth will render overall state and local tax collections per capita in Nebraska around 13 percent higher than the national average by 2016 as compared to being around 5 percent higher in 2005. Obviously, this trend will worsen Nebraska’s position among the states in terms of highest tax burdens.

Table 1.3: Projected Growth Factors, 2006-2016

<i>Growth Factors</i>	<i>Nebraska</i>	<i>United States</i>
Employment Growth	5.8%	8.5%
Median Income Growth	61.8%	65.9%

Table 1.4: Projected state & local tax burden per capita 2016

	Projected 2016 Tax Collections Per Capita	2005 Tax Collections Per Capita
United States	\$5,011	\$3,440
Wyoming	\$9,936	\$4,437
Nebraska	\$5,671	\$3,608
Kansas	\$4,898	\$3,380
Colorado	\$4,628	\$3,169
Iowa	\$4,071	\$3,054
Missouri	\$3,963	\$2,822
South Dakota	\$3,727	\$2,615

Note: A large share of Wyoming's tax burden is paid by severance on energy commodities such as coal

Source: Author's calculations based on data from U.S. Census Bureau

To illustrate, Table 1.4 presents projected total state and local tax collections per capita for Nebraska, Nebraska's neighbors and the average U.S. resident. The table also includes total state and local tax collections per capita for 2005. Total state and local tax collections per capita in Nebraska were second highest among the group in 2005 and in 2016. This comparison is even less favorable than presented since a significant portion of Wyoming's tax burden is shifted outside the state via severance taxes on coal, natural gas and other energy commodities.

This trend can also be expressed in terms of the changing tax burden by income for a family. For example, consider a household with an income of \$46,587 (median household income for 2005) and a household with an income of \$150,000. Assuming that the Nebraska tax burden is distributed evenly based on income, these two households would face tax burdens of \$5,404 and \$17,400 for 2005, respectively.¹⁸ If the overall tax burden grows as predicted, the tax burden for these two hypothetical households will increase to \$17,400 and \$27,544 by 2016, respectively.

This rising per capita tax burden in Nebraska will likely have a detrimental effect on economic growth if it continues at the present rate. Indeed, Nebraska's relatively high tax environment is inconsistent with one of the fundamental goals of good tax policy - a tax system should be conducive to strong economic growth in the long run. Economic research has shown, not surprisingly, that higher taxes per capita negatively affect economic activity.

Additionally, recent research by Creighton University economist, John Deskins,¹⁹ has discovered that, while higher taxes per capita have had a negative effect on economic activity for a number of years, the effect has been growing in magnitude (i.e., becoming more negative) over the past two decades. This indicates that the costs of a higher tax burden in terms of economic activity is becoming higher, or on the other hand, the benefits of reducing tax collections are greater in terms of the impact on employment and income growth.

The current practice in Nebraska is to protect tax revenue, sustain a healthy state government cash reserve and offer highly focused incentives to certain business groups. In other words, more legislative action is needed to restrain government spending to more positively entice working-age people to live in Nebraska. As the data shows, if this practice continues, the population base that contributes the most to tax revenues will shrink, burdening those who do live here even more. It should be clear that Nebraska needs to alter its objectives to focus more intently on economic growth and restraining the growth in state and local government spending. When all the numbers and rankings are stacked up, it's a wonder Nebraska isn't in an economic tailspin. The state is behind and slowly falling further behind, but opportunity still exists to set a course for strong economic growth. The next chapter profiles Nebraska's overall state and local government spending.

Chapter 2: Overall State and Local Government Spending

Chapter overview:

- » Between 1993 and 2006, state and local spending per capita increased by 82 percent for Nebraska, by 83 percent for all U.S. states and by 77 percent for Nebraska's neighbors.
- » In 2006, state and local spending as a percent of GSP was 21.5 percent for Nebraska, 20.3 percent for all U.S. states and 18.7 percent for Nebraska's neighbors.
- » In 2007, if Nebraska state and local governments spent, as a share of overall state income at the rate of its neighbors and the average U.S. state, savings per capita would have been \$1,110 and \$525, respectively.
- » Compared to border states for 2006, Nebraska spent a greater share of its expenditures on utilities, higher education, K-12 education and public safety and a smaller proportion on highways. Compared to the average U.S. state, Nebraska spent a larger share on utilities and higher education and a smaller proportion on K-12 education, welfare and public safety.
- » In general, high economic performing states spent a smaller share of their government expenditures on education and public welfare, while low performing states focused more of their spending in both areas.²⁰

Table 2.1 shows how other economic factors expanded during this period. For the U.S., border states and Nebraska, data indicates the growth in state and local spending outpaced the expansion in prices plus population, often used as a barometer of government growth.²¹

Nebraska's apparent relative restraint in state and local spending disappears when population growth is considered. The small difference in spending in both actual dollars and in growth between Nebraska and the U.S., and in relation to Nebraska's surrounding states, is apparent from the numbers presented in Table 2.2 and Figure 2.1. Both clearly profile the relative overall spending and the correlation in overall spending growth of Nebraska, its border states and the U.S. Figure 2.1 shows that over the course of the full period, Nebraska's government spending per capita generally exceeded that of the U.S. and was significantly above that of border states for all years.

As a share of overall economic activity, Nebraska's relative position is likewise less competitive than either its border states, or the average U.S. state. While Nebraska's growth between 1993 and 2006 was lower, the state ended the period with state and local government jurisdictions spending more of total state output than either its border states or the average U.S. state. As seen in Table 2.3, in 2006, Nebraska, its surrounding states and the U.S. all spent within one percentage point of GSP of where they started in 1993, and according to Table 2.4, the increase in spending as a percent of GSP took place in more recent years – a trend true for all three groups. Figure 2.2 plainly shows that while Nebraska was consistently the higher spender as a percent of its GSP from 1993 to 2006, its spending rose and declined in association with its border states and with the U.S.

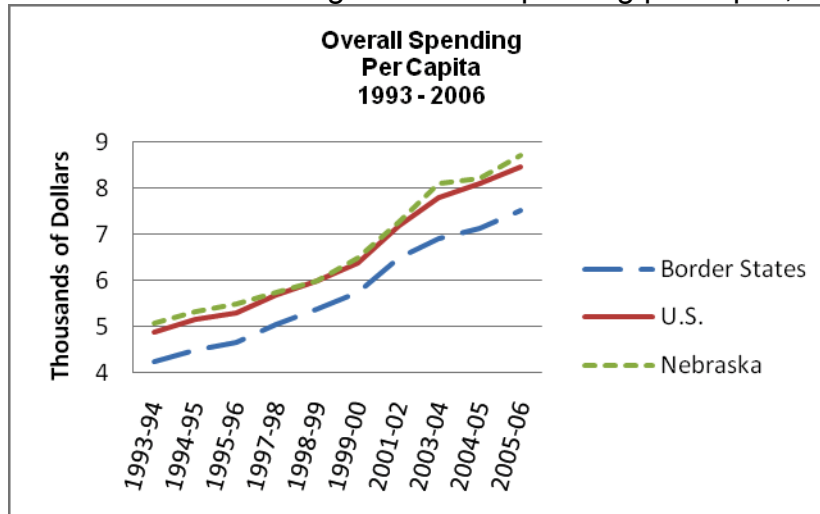
Table 2.1: Growth in prices, population and income, 1993-2006

	1993	2006	Change
Consumer price index	144.5	201.6	39.5%
Population:			
Border states	15,352,062	17,633,494	14.9%
U.S.	257,782,608	298,754,819	15.9%
Nebraska	1,612,149	1,763,765	9.4%
Personal income			
Border states	\$311,881,122	\$617,831,382	98.1%
U.S.	\$5,548,121,000	\$10,977,312,000	97.9%
Nebraska	\$32,104,816	\$59,874,563	86.5%
Source: U.S. Census, U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis			

Table 2.2: Overall state & local government spending per capita, 1993–2006

	1993	2006	Change
Border states	\$4,326	\$7,509	77%
U.S.	\$4,890	\$8,451	83%
Nebraska	\$5,075	\$8,712	82%
Source: U.S. Census			

Figure 2.1: Overall state & local government spending per capita, 1993–2006



Source: U.S. Census

Table 2.3: Overall state & local government spending as % of GSP, 1993–2006

	1993	2006
Border states	18.0%	18.7%
U.S.	19.5%	20.3%
Nebraska	20.9%	21.5%

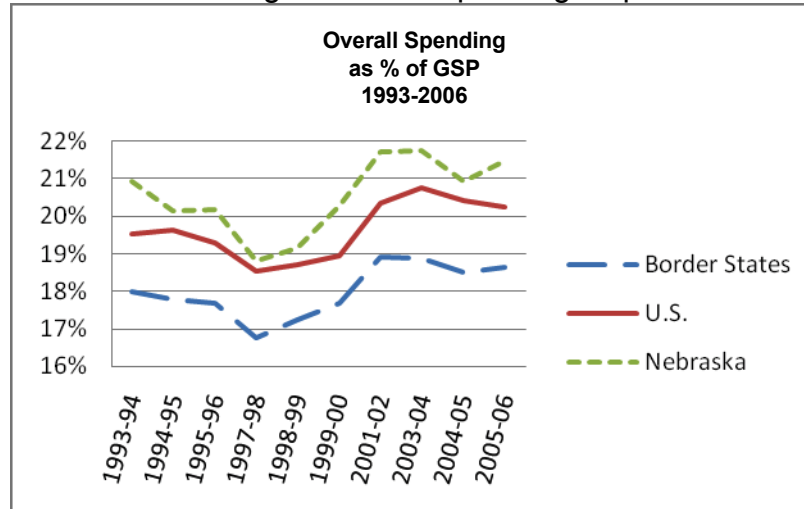
Source: U.S. Census

Table 2.4: Overall state & local government spending growth as percent of GSP, 1993–2006

	% Growth 1993-1999	% Growth 1999-2006
Border States	-0.8%	1.4%
U.S.	-0.9%	1.6%
Nebraska	-1.8%	2.3%

Source: U.S. Census

Figure 2.2: Overall state & local government spending as percent of GSP, 1993–2006



Source: U.S. Census

Table 2.5: Savings if Nebraska spent same percent of GSP as border states or U.S.

	2007 Savings Total	2007 Savings Per Capita
Savings vs. Border States	\$1,969,192,951	\$1,110
Savings vs. U.S.	\$932,046,038	\$525

Source: U.S. Census

Potential Nebraska savings.

Nebraska has been the “big” spender in terms of percent of GSP in the recent past, savings could be realized if it were to reduce its spending as a percent of its GSP to the level of either its neighbors or the U.S. For example, in 2007, if Nebraska had kept its rate of overall spending at the same percent of GSP as the U.S., it would have saved \$932,046,038 – or \$525 per capita - and \$1,969,192,951 – or \$1,110 per capita - if it had spent as little (as percent of GSP) as its bordering states did in 2006. Table 2.5 provides data to illustrate.

As percent of GSP or per capita, Nebraska's state and local governments spend more heavily than either border states or the average U.S. state. But would such a restraint on Nebraska's state and local government spending affect economic performance?

State and local spending and economic performance

According to the previous data, spending by state and local government jurisdictions in Nebraska exceeded that of surrounding states and the average U.S. state. But how has this affected economic performance? Figure 2.3 provides some guidance on this issue by comparing states that exceeded the nation in terms of growth in per capita income growth (after taxes) and jobs. These high performing states are listed in quadrant 1 in Figure 2.3. Only South Dakota and Wyoming, among Nebraska's neighbors, were included in this quadrant. Presented in quadrant 3 are low performing states, or states that lagged the nation in terms of growth in per capita income and jobs. Iowa, Kansas and Missouri are listed in this quadrant. In terms of Nebraska and its neighbors, Nebraska is included in quadrant 2, or states that exceeded the nation in per

Figure 2.3: Economic performance and state and local spending, 1999-2006

		Job growth	
		Above average	Below average
Per capita income growth	Above average	Quadrant 1 State/local spending as % of GSP = 19.6% Growth in state & local spending as % of GSP = 0.0% Migration rate = 4.7% WY, SD	Quadrant 2 State/local spending as % of GSP = 20.4% (Nebraska = 20.9%) Growth in state/local spending as % of GSP = 1.3% (Nebraska = 1.7%) Migration rate = 0.1% (Nebraska = -0.6%)
	Below average	Quadrant 4 State & local spending as % of GSP = 17.0% Growth in state & local spending as % of GSP = 1.1% Migration rate = 4.9% CO	Quadrant 3 State/local spending as % of GSP = 18.7% Growth in state/local spending as % of GSP = 2.2% Migration rate = 0.8% IA, KS, MO

capita income growth, but lagged the nation in job expansion. In quadrant 4 are states that exceeded the nation in job growth, but lagged in terms of per capita income growth. Only Colorado, among Nebraska's neighbors, was in this category.

What factors distinguished the high performing states? As presented, states with low per capita income growth (quadrants 3 and 4) had lower state and local spending as a share of GSP in 2006, but experienced higher growth in this spending between 1999 and 2006. On the other hand, states that experienced above average job growth enjoyed much higher net in-migration. Additionally, high performing states had the slowest growth in government spending while low performing states experienced the highest pace in government expenditures. It must be noted that high performing states may have spent less on these factors due to the rapid growth in the economy. That is, low spending on these factors may not be the contributor to the high growth but the outcome. To state another way, correlation does not necessarily mean causation.

Table 2.7 lists states in the high (quadrant 1) and low (quadrant 3) economic performing sectors. High performing states spend a lower proportion of their GSP on education, both K-12 and higher education, and on public welfare. Also noteworthy is the fact that six of the thirteen high performing states did not assess an individual income tax on their workers while all of the fourteen low performing states levied an individual income tax on wage earners.

Based on this data and Nebraska's competitive position, the following recommendations are made.

Recommendations:

1. To assist in the cost of government, state and local government at all levels should establish task forces for their jurisdiction to review opportunities to privatize publicly provided goods and services such as recreation and entertainment amenities including recreation facilities and youth recreation leagues; music, theater and sports venues; and park lodges and recreation facilities.²²

2. The growth in state aid to education allows a shift in the funding from property taxes to income and sales taxes and encourages a more rapid expansion in K-12 spending as the link between the beneficiary of spending is less linked to the financial support. As such, growth in state aid to education should be limited to the rate of inflation plus the rate of student population growth.

3. Nebraska should implement taxing and spending strategies that limit the growth in state and local spending to the rate of inflation plus the rate of population growth. In a growing economy, the movement towards a smaller government can take place over a period of years. All that is required is that the economy grows faster than the government each year. Government could grow, but at a significantly slower pace. Below are listed actions various states, both Democrat and Republican dominated, have undertaken to limit the growth in spending.

» **Maryland.** Governor Martin O'Malley, Governor Tim Kaine of Virginia, Washington D.C. Mayor Adrian Fenty and other officials in the Chesapeake Bay area launched the Chesapeake Crescent Initiative in late January of 2008. The partnership will pool resources to find long-term solutions to environmental, transportation and economic challenges.²³

» **New York.** In 2009, the New York Legislature will advance S 6358 which will require, for the first time ever, all Executive State government spending units and the Judiciary to compile and release public expenditure reports. The annual reports will include information detailing personnel costs, equipment purchases, postage costs, travel costs and other expenditures.²⁴ In 2008 New York passed S 7134 which placed a spending cap on total state government spending. Under the bill, year-to-year state spending increases would be limited to 120 percent of the Consumer Price Index or 4 percent, whichever is less. In any given year, fifty percent of tax revenue that exceeded the cap would be placed in a reserve fund and fifty percent would be returned to taxpayers in

Table 2.7: Spending for high performing and low performing states, 2006

State	Spending as percent of GSP					
	High performing states (quadrant 1)	K-12 Education	Higher Education	Public Welfare	Highways & Roads	Personal Income tax
California		3.7%	1.4%	2.6%	0.9%	YES
Florida		3.6%	1.0%	2.5%	1.2%	NO
Montana		4.2%	2.1%	2.7%	2.2%	YES
Nevada		3.1%	1.0%	1.5%	1.2%	NO
New Mexico		4.2%	2.6%	4.0%	1.7%	YES
Oregon		3.4%	2.0%	2.6%	1.2%	YES
South Carolina		4.7%	1.9%	3.3%	1.2%	YES
South Dakota		3.2%	1.4%	2.3%	2.1%	NO
Texas		3.6%	1.5%	1.9%	1.0%	NO
Utah		3.4%	2.4%	2.4%	1.1%	YES
Virginia		3.6%	1.4%	2.0%	0.8%	YES
Washington		3.3%	1.6%	2.3%	1.0%	NO
Wyoming		3.8%	1.6%	2.0%	1.9%	NO
Median-top performing states		3.6%	1.6%	2.5%	1.2%	
Low performing states (quadrant 3)						
Alabama		4.1%	2.4%	3.2%	1.2%	YES
Arkansas		4.5%	2.1%	3.8%	1.2%	YES
Connecticut		3.6%	1.0%	2.3%	0.6%	YES
Illinois		3.5%	1.3%	2.3%	0.9%	YES
Indiana		4.1%	1.8%	2.7%	1.0%	YES
Iowa		3.8%	2.3%	2.9%	1.5%	YES
Kansas		3.7%	2.2%	2.6%	1.6%	YES
Kentucky		3.5%	1.9%	3.9%	1.3%	YES
Maine		4.6%	1.5%	5.4%	1.7%	YES
Massachusetts		3.5%	1.1%	3.4%	0.7%	YES
Michigan		4.6%	2.2%	2.6%	1.0%	YES
Minnesota		3.7%	1.4%	3.8%	1.3%	YES
Missouri		3.8%	2.5%	2.7%	1.3%	YES
Ohio		4.4%	1.6%	3.7%	1.0%	YES
Median-lowest performing states		3.8%	1.8%	3.1%	1.2%	YES
Nebraska		3.6%	2.0%	2.7%	1.5%	YES
Median for all 50 states		3.8%	1.6%	2.7%	1.2%	n.a.

the form of direct tax rebates. If such a cap had been in place since 2000, New York state taxpayers would have saved \$13 billion, half of which would have been returned to taxpayers and the other half placed in a rainy day reserve fund.

- » **Pennsylvania.** In 2008, Governor Rendell signed into law a new set of reform rules for the tax collection system. The reforms were intended to provide a higher degree of standardization, coordination and accountability.²⁵
- » **Texas.** In April 2007, the Texas Legislature passed HB 3430 that called for a “one-stop shop” for publicly available accounting data. Other states including Tennessee, Nevada, and Washington have investigated starting their own version of “*Where the Money Goes*,” the street title for the bill. However, to-date, only Missouri has an online system that’s similar. *Where the Money Goes* online state expenditure database went on-line on Oct. 1, 2007. *Where the Money Goes* is a searchable Web-based database available to the public. The system includes historical expenditure data from fiscal 2001–2007 at a summary level and from fiscal 2008 forward at a detail level. At this time the system retains the current year’s expenditure information, plus the most recent seven years’ information.²⁶ **For citizens:**²⁷ Texas taxpayers can find information on how tax dollars are being put to work. At the highest level of detail, citizens go to an area which includes small-dollar purchases by the state’s largest state agencies – down to the pencils. **For businesses:** Business men and women are able to see the types of goods and services that the state government entities are buying. This provides businesses with information on new business opportunities. State vendors are able to use the vendor search to see when payment transactions were processed. **For government:** The system allows researchers to examine state government buying patterns to identify new opportunities to leverage the state’s buying power.

Summary

The preceding analysis has demonstrated how state and local government spending has varied by state and how it has been affected by and has affected economic performance. Data indicates that Nebraska remains a big government state when the relative size of the economy is considered. This is especially the case when Nebraska is compared to its geographic neighbors. The next chapter examines education spending, the largest element of state and local expenditures.

Chapter 3: State and Local Education Spending

Chapter overview

- » Nebraska outspent both the U.S. and its neighbors in terms of higher education spending per capita. In terms of per capita growth, Nebraska's higher education spending increased at a rate similar to the U.S., but at a rate greater than that of the states surrounding it.
- » In terms of higher education spending as a share of GSP, Nebraska has consistently outspent both its surrounding states and the U.S.
- » In 2006, Nebraska appropriations per full-time equivalent (FTE) college student were \$6,999. This compares to \$6,325 for the average U.S. state and \$5,801 for Nebraska's bordering states. Tuition charges were a much smaller percentage of total higher education revenues for Nebraska than for its neighbors or for the average U.S. state.
- » In terms of National Science Foundation grants per FTE, compared to its neighbors, Nebraska ranked fifth, with Kansas in sixth place and Missouri in seventh, or last place.
- » In 2007, Nebraska would have saved a total of more than \$193 million, the equivalent of \$109 per capita, if Nebraska's higher education spending as a percent of GSP matched that of bordering states and more than \$350 million—or \$197 per capita— if it equaled that of the U.S.
- » Nebraska has been raising the amount it spends per K-12 student at a greater rate than either its surrounding states or the U.S. While Nebraska's bordering states boosted their combined per-student spending by 32.8 percent between 1999 and 2006 and the U.S. by 32.7 percent, Nebraska's went up by 34.4 percent.
- » Data indicates that Nebraska spends more on K-12 education due to the state's lower student to teacher ratios and to the state's much lower average number of students per school district. Savings to Nebraska citizens are likely if the state reduced its K-12 education spending to the level of the states it borders with a savings of \$27 per capita.
- » Based on this statistical model of all U.S. school districts and 2006 data, Nebraska's spending on K-12 education would decline by 1.1 percent, or over \$31 million, if there were one school district per county instead of the current 254 school districts. Likewise, Nebraska would have saved almost \$102 million, or 3.7 percent, if the state's student-teacher ratio rose from its current level of 13.83 to the national median student-teacher ratio of 15.11. Both of these estimates do not consider the potential additional costs of transportation or other related costs associated the expansion in the student-teacher ratio such as construction costs for added classrooms.

Higher education spending

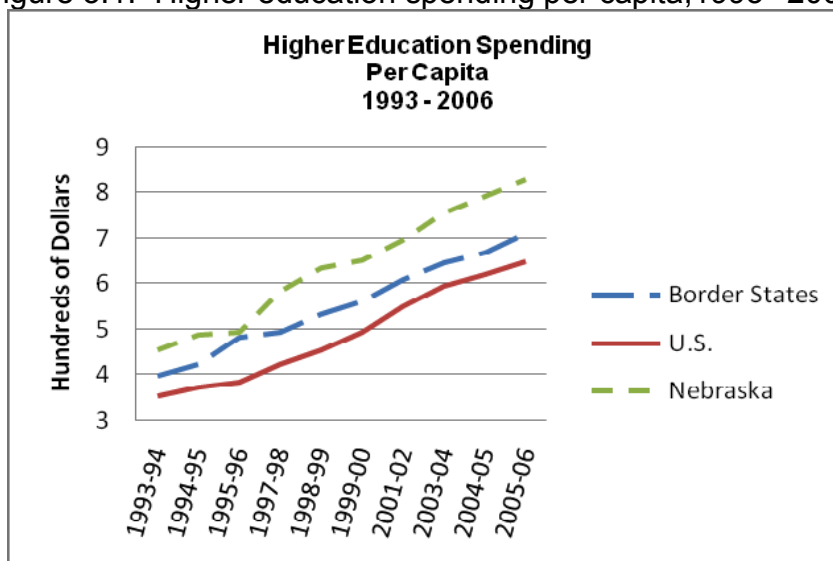
In actual dollars per capita on higher education spending, Nebraska outspent both the U.S. and its neighbors on higher education throughout the 1993 to 2006 timeframe. In terms of growth, the U.S., the states bordering Nebraska and Nebraska all saw per capita spending on higher education increase over time. Nebraska's expenditures increased at a rate similar to the U.S., but at a rate greater than the states surrounding it. Specifically, as indicated in Table 3.1 and Figure 3.1, between 1993 and 2006, the U.S. went from spending \$353 to \$648 (84 percent growth) per capita on higher education; Nebraska's neighbors on average increased their higher education spending by 78 percent from \$398 to \$709 per capita; Nebraska's spending climbed from \$453 to \$827 per capita – an increase of 83 percent.

Table 3.1: Higher education spending per capita, 1993–2006

	1993	2006	Change
Border states	\$398	\$709	78 %
U.S.	\$353	\$648	84 %
Nebraska	\$453	\$827	83 %

Source: U.S. Census

Figure 3.1: Higher education spending per capita, 1993–2006



Source: U.S. Census

Table 3.2: Higher education spending as percent of GSP, 1993–2006

	1993	2006	Change
Border states	1.69%	1.76%	0.07%
U.S.	1.41%	1.55%	0.14%
Nebraska	1.87%	2.04%	0.17%

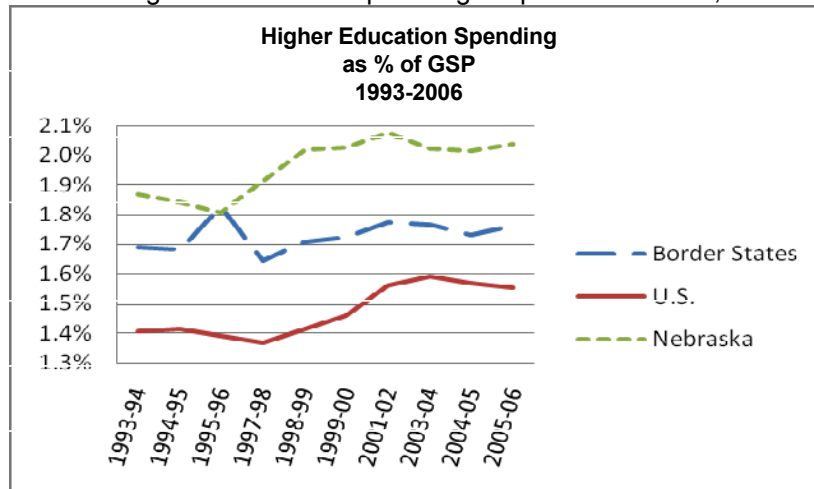
Source: U.S. Census

Table 3.3: Higher education spending as percent of GSP, 1993–2006

	Percent Growth 1993 - 1999	Percent Growth 1999 - 2006
Border States	0.02%	0.05%
U.S.	0.01%	0.14%
Nebraska	0.15%	0.02%

Source: U.S. Census

Figure 3.2: Higher education spending as percent of GSP, 1993-2006



Source: U.S. Census

Higher education spending analyzed in terms of percent of GSP shows Nebraska has consistently spent a higher percent of its GSP than either its surrounding states or the U.S. over time. But, as reflected in Table 3.2 and Figure 3.1, the spending in relation to GSP of all three areas of analysis has remained relatively flat in recent years. The growth trend documented in Table 3.2 and observed in Figure 3.2 is substantiated by the data presented in Table 3.3. Between 1993 and 2006, the greatest portion of Nebraska's growth occurred between 1993 and 1999, or almost 90 percent of the growth in percent of GSP spending.

Table 3.4 shows where higher education draws its financial support. As presented, Nebraska appropriates a much larger share of its total taxes to higher education than either the average U.S. state or its border states. In 2006, Nebraska appropriations per full-time equivalent (FTE) college student were \$6,999. This compares to \$6,325 for the average U.S. state and \$5,801 for Nebraska's bordering states. Furthermore, tuition was a much smaller percentage of total higher education revenues for Nebraska than for its neighbors or for the average U.S. state.

Table 3.4: State and local support versus tuition support for higher education, 2006

	State & local appropriations		Tuition
	As a percent of total taxes	Per full-time equivalent (FTE)	As percent of total revenue
U.S.	7.1%	\$6,325	36.1%
Border States (median)	7.4%	\$5,801	44.0%
Nebraska	10.3%	\$6,999	34.2%
Source: State Higher Education Executive Officers, Boulder, CO			

One measure of the effectiveness of higher education spending is the degree to which public universities and colleges in the state successfully competed for grants and contracts. Table 3.5 lists the success of Nebraska's public universities and colleges in terms of National Science Foundation grants between 2005 and 2007. In terms of NSF grants per FTE compared to its neighbors, Nebraska ranked fifth, with Kansas in sixth place and Missouri in seventh or last place. Furthermore, Iowa, with only three universities compared to Nebraska's seven, won NSF awards exceeding Nebraska's by 71.5 percent.

However, in terms of national ranking by U.S. News and World Reports, the University of Nebraska-Lincoln was tied for 40th in the nation among public universities. Among its neighbors, only the University of Iowa at 26th, the University of Colorado

at 34th, the Colorado School of Mines at 36th and Iowa State University tied with UNL at 40th were ranked as highly as the University of Nebraska-Lincoln. This ranking is listed as the last column of Table 3.5 and indicates a higher level of success for Nebraska's higher education institutions.

Table 3.6 provides data to illustrate the amount of savings Nebraska would realize if its higher education spending as a percent of its GSP were identical to that of either its border states or the U.S. as a whole. In 2007, Nebraska would have saved a total of \$193,423,092, the equivalent of \$109 per capita, if its higher education spending as a percent of GSP had been equal with that of its bordering states and \$350,649,176 - or \$197 per capita - if on par with the U.S.

Table 3.5: National Science Foundation grants to public colleges, 2005-2007

	Total value of NSF grants	NSF grant values per FTE	# of universities in top 50 ²⁸
Colorado NSF grants public universities	\$187,507,324	\$1,180	3
Wyoming NSF grants public universities	\$22,268,073	\$990	0
Iowa NSF grants public universities	\$94,776,906	\$844	2
South Dakota NSF grants public universities	\$23,661,731	\$809	0
Nebraska NSF grants public universities	\$55,255,978	\$761	1
Kansas NSF grants public universities	\$76,175,081	\$597	2
Missouri NSF public universities	\$61,372,932	\$360	1

Table 3.6: Savings if Nebraska spent same percent of GSP as border states or U.S.

	2007 Savings Total	2007 Savings Per Capita
Savings vs. Border States	\$193,423,092	\$109
Savings vs. U.S.	\$350,649,176	\$197
Source: U.S. Census		

Table 3.7: Higher education appropriations, tuition and economic performance

	Appropriations per FTE	Tuition per FTE	Job Growth	Per capita Income Growth	Population 18-30 growth
Nebraska	\$6,999	\$3,645	2.7%	10.3%	1.9%
Colorado	\$3,364	\$5,110	4.9%	9.3%	3.3%
Iowa	\$5,809	\$5,355	3.7%	10.3%	1.8%
Kansas	\$5,792	\$3,606	3.2%	13.5%	2.2%
Missouri	\$5,846	\$3,919	2.1%	9.0%	2.5%
South Dakota	\$4,499	\$4,839	4.6%	10.9%	2.9%
Wyoming	\$13,425	\$2,277	8.2%	21.5%	5.6%
Regional average	\$5,571	\$4,324			

Spending on higher education and economic performance

Nebraska continues to spend more heavily on higher education than its neighbors and the average U.S. states. Has this relatively heavy spending benefited the Nebraska economy? It is often asserted that in order to improve their economic competitiveness, states should spend more heavily on higher education. However, data in Table 3.7 and Figure 3.3 provide no basis for this hypothesis.

Figure 3.3 profiles education spending according to economic performance. As presented, there appears to be no positive link between economic performance and higher education spending. In fact, the poorest performing states, quadrant 3, experienced the highest growth in higher education spending as a share of GSP at 15.5 percent compared to 5.0 percent for the highest performing states. Likewise, the highest performing states spent

second to the lowest share of GSP on higher education at 1.6 percent compared to 1.7 percent for the poorest performing states. Statistically speaking, the direction of causation is not conclusive in this figure since it is certainly possible that high performing states are allowed to spend less on higher education than low performing states. Furthermore, under performing states may be spending more heavily on higher education in anticipation of greater future economic growth stemming from the spending.

It can be asserted that Nebraska, by more heavily subsidizing higher education than its neighbors, tends to shift more of the tax burden from upper and middle income earners, who are much more likely to pursue university degrees, to lower income individuals who are less likely to attend a university. However, the direction and degree of the subsidy has not been clearly established.²⁹

Figure 3.3: Economic performance and higher education spending

		Job growth	
		Above average	Below average
Per capita income growth	Above average	<p>Quadrant 1</p> <p>Higher ed. spending as % of GSP = 1.6% SD (1.1%), WY (1.6%)</p> <p>Growth in higher ed. spending as a % of GSP = 5.0% SD (1.1%), WY (-10.9%)</p>	<p>Quadrant 2</p> <p>Higher ed. Spending as % of GSP = 2.0% NE (1.9%)</p> <p>Growth in higher ed. spending as a % of GSP = 7.1% NE (-2.2%)</p>
	Below average	<p>Quadrant 4</p> <p>Higher ed. spending as % of GSP = 1.4% CO (1.4%)</p> <p>Growth in higher ed. spending as a % of GSP = 4.5% CO (-3.8%)</p>	<p>Quadrant 3</p> <p>Higher ed. spending as % of GSP = 1.7% IA (1.4%), KS (2.2%), MO (1.4%)</p> <p>Growth in higher ed. spending as a % of GSP = 15.5% IA (0.6%), KS (5.09%), MO (10.3%)</p>

Recommendations

Advocates of low tuition argue that keeping tuition low helps ensure that college remains affordable for everyone. But heavily state-subsidized tuition translates into greater direct financial aid for everyone, regardless of need. A high share of Nebraska's poorer residents won't make it to college but must subsidize higher income families via their income and sales taxes and lottery tickets. A more equitable and efficient solution would be to charge higher tuition and provide greater financial aid to the truly needy. Alternatively, Nebraska could increase its tuition to the average of its neighbors and rebate the savings to its citizens via a tax cut. Data does suggest that Nebraska neighbors that have been more parsimonious in spending on higher education have achieved superior outcomes in terms of national rankings and NSF grants per FTE.

It is recommended that Nebraska:

- 1) Reduce its appropriations per FTE for higher education to the current regional average (region includes Nebraska and its six neighbors).
- 2) Increase its tuition per FTE for higher education to the average of Nebraska and its neighbors.

3) The implementation of 1) and 2) would save the Nebraska taxpayers approximately \$104 million annually.

4) The implementation of 1) and 2) would result in a reduction in total government appropriations going to Nebraska's higher education institutions of approximately 7.0 percent.

5) In order to accommodate 1) and 2) without reducing effectiveness, public colleges and universities should eliminate redundant programs. For example, Chadron State University, the University of Nebraska-Kearney, the University of Nebraska-Omaha, Peru State University and Wayne State University all offer an undergraduate degree in Criminal Justice. The state of Iowa supports only two such programs, one at Iowa State University and the other at the University of Northern Iowa.

6) Additionally Nebraska should substitute loans for the state subsidy so that deserving students are not denied access to university education. It would insure more accountability on the part of the student, increase the student's level of responsibility and encourage better decision making by the student. That is the student would have "skin in the game."

Table 3.8: Elementary and secondary education spending per student enrolled, 1999–2006

	1999	2006	Change
Border states	\$7,108	\$9,440	32.8%
U.S.	\$7,847	\$10,410	32.7%
Nebraska	\$7,104	\$9,549	34.4%

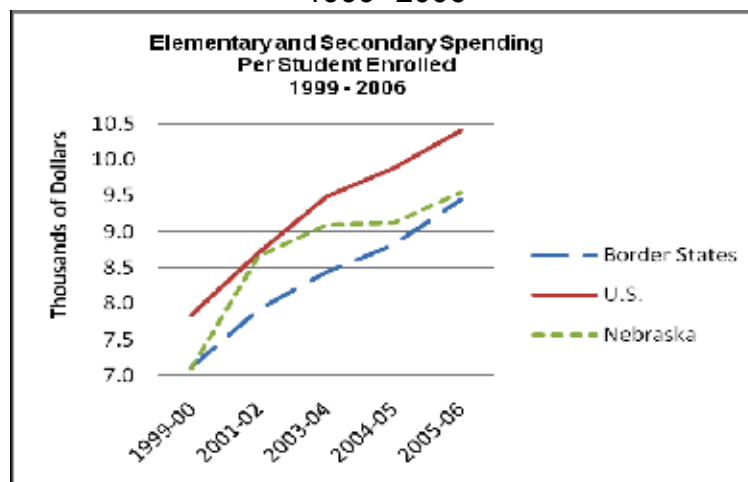
Source: U.S. Census

Elementary and secondary education spending (K-12)

A meaningful gauge of K-12 spending is the amount of spending per student enrolled. Table 3.8 shows Nebraska's actual dollars spent per student on elementary and secondary education compared to bordering states and to the U.S. Data indicates that if Nebraska spent on a per student basis the same as its neighbors, the state would have saved \$42.6 million in 2006. The gap between what the U.S.

and Nebraska spends per student on elementary and secondary education is narrowing though. As evident from Figure 3.4, Nebraska has been raising the amount it spends per student at a greater rate than either its surrounding states or the U.S. While Nebraska's bordering states boosted their combined per-student spending by 32.8 percent between 1999 and 2006 and the U.S. by 32.7 percent, Nebraska's expanded by 34.4 percent.

Figure 3.4: Elementary and secondary education spending per student enrolled, 1999–2006



Source: U.S. Census

Where is Nebraska's higher K-12 education spending going? Table 3.9 provides some insight to that question, listing student to teacher ratios, average number of students per school district and teacher pay per student enrolled. Data provides a strong suggestion that Nebraska spends more on K-12 education due to the state's lower student to teacher ratios and to the state's much lower average number of students per school district. This has had the impact of Nebraska expending more teacher pay per student enrolled and more in administrative costs.

As a percent of GSP, elementary and secondary education spending in Nebraska was relatively volatile between 1993 and 2006, with Nebraska ultimately decreasing its outlay in relation to GSP over that period as the -0.60 percent change in Table 3.10 indicates. Figure 3.5 presents an interesting picture of this volatility of Nebraska's spending as a percent of GSP over the 13-year time period for which data is available and suggests that the level of Nebraska's spending as a percent of GSP has gravitated toward greater alignment with that of the U.S. and its border states. To varying degrees, both Nebraska and the U.S. have consistently spent a higher percent of their GSP than Nebraska's neighboring states.

Table 3.9: K-12 teacher spending per student, 2006

	Average pupil to teacher ratio	Average students per SD	Teacher pay per student
Border states	14.0 ³⁰	1,666 ³¹	\$3,397 ³²
U.S.	15.1	3,439	\$3,769
Nebraska	13.8	636	\$3,497

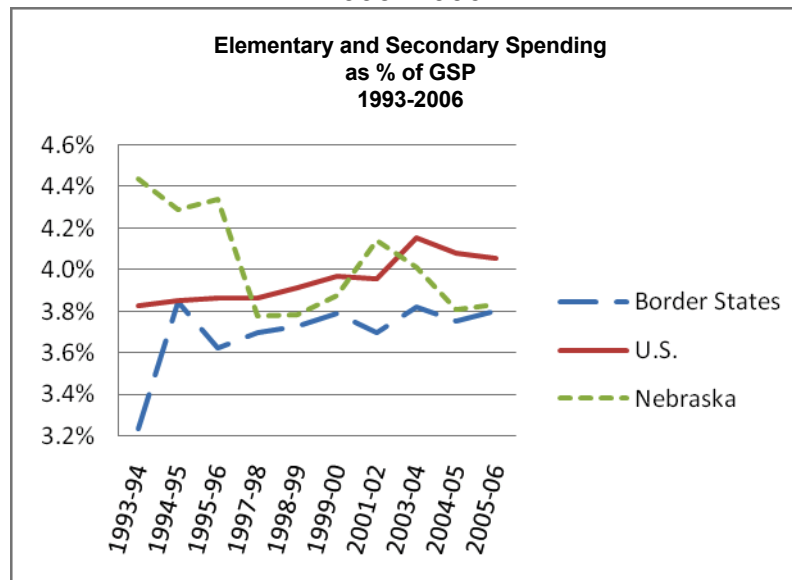
Source: U.S. Census and author calculations

Table 3.10: Elementary and secondary education spending as percent of GSP, 1993–2006

K-12 Education Spending as Percent of GSP			
	1993	2006	Change
Border states	3.2%	3.80%	0.57%
U.S.	3.8%	4.05%	0.22%
Nebraska	4.4%	3.83%	-0.60%

Source: U.S. Census

Figure 3.5: Elementary and secondary education spending as percent of GSP 1993–2006



Source: U.S. Census

Table 3.11: Savings if Nebraska spent same percent of GSP as border states or U.S.

	2007 Savings Total	2007 Savings Per Capita
Savings vs. Border States	\$48,307,837	\$27
Savings vs. U.S.	-\$236,228,360	-\$133

Source: U.S. Census

Savings to Nebraska is possible if it were to reduce its elementary and secondary education spending to the level of the states it neighbors: \$48,307,837 – or \$27 per capita- would have been the amount saved to Nebraska as a whole in 2007 if it had spent an identical percentage of its GSP as the surrounding states did. (As Nebraska spent a smaller percentage of its GSP on elementary and secondary education in 2007 than did the U.S., however, additional cost would have resulted had Nebraska matched its spending to that of the U.S.) Table 3.11 summarizes these findings.

Table 3.12 lists Nebraska's five highest and lowest per student cost school districts. Data suggests a very strong linkage between the number of students in a school district and the cost per student. Combined state and local spending for Sioux County public schools with only 110 students was the highest in the state at almost \$20,000 per student. Costs per student for Arthur County's 94 students were more than \$18,000. At the other end of the spectrum, cost per student for McCook's 1,499 was slightly more than \$7,000. Interestingly, none of the low cost districts had more than 1,500 students.

In Figure 3.6 is the relationship between Nebraska per pupil cost and enrollment per school district. As indicated, the state's low enrollment and high enrollment school districts have the highest cost per pupil. It is estimated that school district costs would decrease by \$556,000 by increasing Nebraska school district enrollment from 1,000 to 2,000 pupils. At the other end of the spectrum, it is estimated that school district costs would increase by \$438,000 by increasing enrollment from 40,000 to 41,000 pupils. Data from Figure 3.6 indicates that the optimum school district size in terms of cost for Nebraska school districts is 23,323.

In a study examining Oklahoma schools, Metzger (2003) estimated the optimal school size for the state. He defined the optimal size as the number of students that minimizes per pupil costs or that maximizes student performance on standardized exams. He concluded that as the size of a school doubles from the median of 150 students, the per unit costs would decline by about 8 percent and test scores would increase by about 5 percent.³³

Table 3.12: Nebraska's highest and lowest cost school districts, 2006

High cost districts			
	Cost per student	Rank	Number of Students
SIOUX COUNTY PUBLIC SCHOOLS	\$19,589	1	110
ARTHUR COUNTY SCHOOLS	\$18,428	2	94
DISTRICT 11 AREA SCHOOLS	\$18,291	3	n/a
MCPHERSON COUNTY SCHOOLS	\$17,477	4	73
SOUTH PLATTE PUBLIC SCHOOLS	\$17,414	5	127
Low cost districts			
	Cost per student	Rank	Number of Students
MILFORD PUBLIC SCHOOLS	\$7,775	250	755
GOTHENBURG PUBLIC SCHOOLS	\$7,738	251	899
NORTHWEST PUBLIC SCHOOLS	\$7,686	252	1,399
ASHLAND-GREENWOOD PUBLIC SCHS	\$7,355	253	860
MCCOOK PUBLIC SCHOOLS	\$7,241	254	1,499
Source: Nebraska Department of Education			

Figure 3.6: Estimated Per Pupil Nebraska Spending and School District Enrollment, 2006

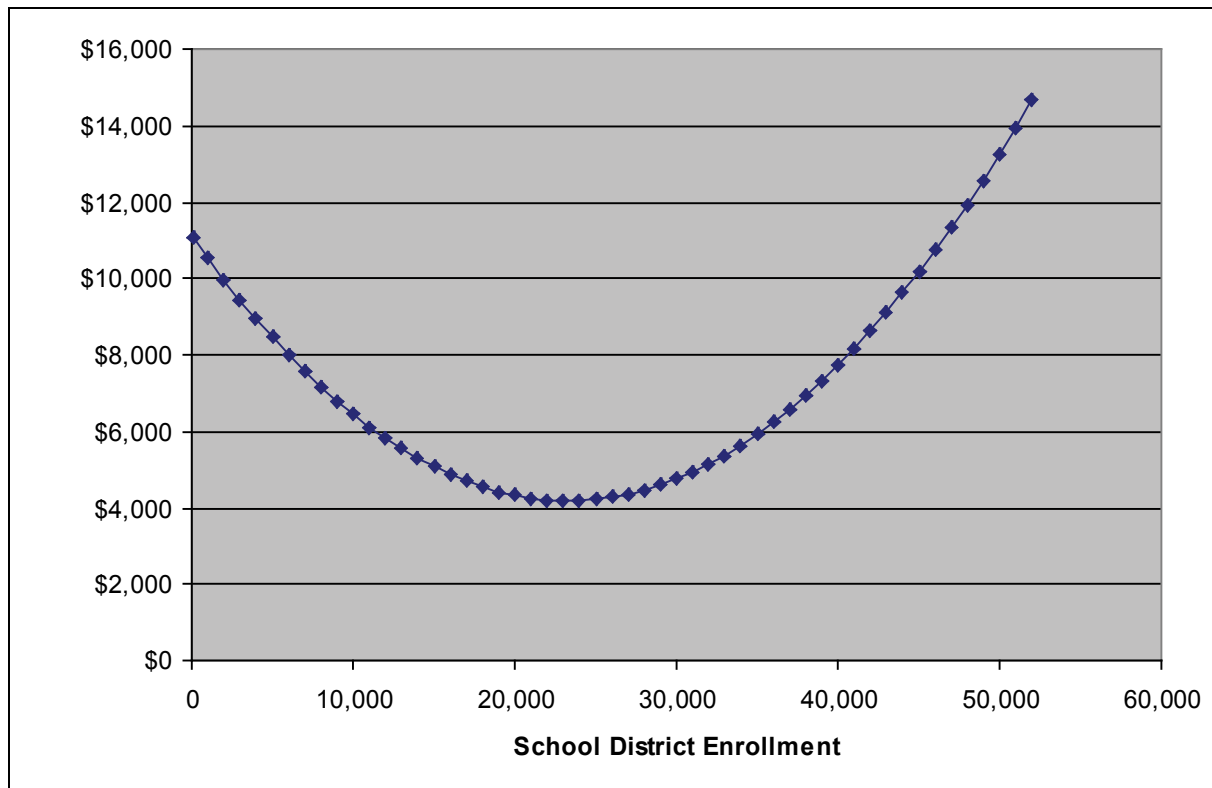


Figure 3.7: Economic performance and K-12 spending

		Job growth	
		Above average	Below average
Per capita income growth	Above average	Quadrant 1 K-12 spending as % of GSP = 3.6% SD (3.2%), WY (3.8%) Growth in K-12 spending as a % of GSP = -4.3% SD (-15.7%), WY (-16.4%)	Quadrant 2 K-12 spending as % of GSP = 4.2% NE (3.6%) Growth in K-12 spending as a % of GSP = -2.8% NE (-1.8%)
	Below average	Quadrant 4 K-12 spending as % of GSP = 3.5% CO (3.2%) Growth in K-12 spending as a % of GSP = 11.2% CO (-7.4%)	Quadrant 3 K-12 spending as % of GSP = 3.8% IA (3.8%), KS (3.7%), MO (3.8%) Growth in K-12 spending as a % of GSP = 5.0% IA (-4.7%), KS (-1.1%), MO (6.3%)

K-12 spending and economic performance

How does state and local government spending on K-12 education affect economic performance? Figure 3.7 provides insight into that question. As presented, high performing states, in terms of job and income growth (quadrant 1) reduced their relative spending on K-12 education more than other quadrants, or 4.3 percent. The poorest performing states (quadrant 3) expanded their spending on K-12 education at a faster pace than other sectors. Statistically speaking, the direction of causation is not conclusive in this figure since it is certainly possible that high performing states are allowed

to spend less on K-12 education than low performing states. Furthermore, under performing states may be spending more heavily on K-12 education in anticipation of greater future economic growth stemming from the spending.

In order to determine the factors that influence K-12 spending, I perform regression analysis. Table 3.13 shows the regression model of K-12 spending. In this case, it is assumed that spending per student in a state is influenced by 1) average enrollment per school district, 2) state population density, 3) percentage of student spending paid by the state, 4) pupil to teacher ratio, 5) gini coefficient³⁴ that reflects income inequality in the state, 6) percent of state that is white, 7) personal income per capita, 8)

Table 3.13: Estimating K-12 student spending, 2006

SUMMARY OUTPUT			
Spending per student			
Regression Statistics			
Multiple R	0.88		
R Square	0.78		
Adjusted R Square	0.73		
Standard Error	1282.58		
Observations	51		
ANOVA			
	Df	SS	MS
Regression	10	2.36E+08	23575570
Residual	40	65800070	1645002
Total	50	3.02E+08	
	Coefficients	Standard Error	t Stat
Intercept	11536.187	5440.074	2.121
Average enrollment per SD	-0.041	0.014	-2.909
Population density	0.409	0.272	1.504
% state	3443.502	1777.031	1.938
Pupils to teacher ratio	-253.602	74.145	-3.420
Gini	5022.441	10279.341	0.489
% white	-5673.042	3159.386	-1.796
PI per capita	0.163	0.063	2.577
Special Ed/Student	648.395	763.435	0.849
Comp/Student'	1366.738	1847.796	0.740
Nutrition/Student	-14678.011	8782.353	-1.671

percent of students in special education, 9) percent of students requiring English as a second language, 10) percent of students qualifying for subsidized meals at school. The model generates expected relationships for each of these variables. That is, as average enrollment per school district goes up student spending declines; as state population density increases, average student spending rises; as the percentage of student spending paid by the state climbs, average student spending expands; as the pupil to teacher ratio grows, average student spending declines; as income inequality grows, so does average student spending; states with a higher share of whites spend less on student spending on average; as personal income per capita climbs, so does average spending per student; as the percent of students in special education, requiring and qualifying for subsidized meals at school grows, so does average spending.

Based on this statistical model, Nebraska's spending on K-12 education would decline by 1.1 percent if there was one school district per county. However, it must be understood that this is based on an analysis of the fifty states and the District of Columbia. Nebraska's experience may or may not correspond to the U.S. average. Based on the national data, Nebraska would have saved \$31,137,300 if it reduced its number of school districts from 254 to 93, or one per county. This assumes no change in the average student-teacher ratio. Likewise, Nebraska would have saved \$101,925,164, or 3.7 percent, in 2006 if the state's student-teacher ratio rose from the Nebraska's 13.83 to the national median student-teacher ratio of 15.11. Both of these estimates do not consider the potential additional costs of transportation or other related costs associated with the expansion in the student-teacher ratio such as construction costs for added classrooms.

Recommendations

- » The state should evaluate and potentially remove early retirement subsidies for K-12 employees.

- » Nebraska should grant new hires the option to choose a defined contribution plan (DC), which non-career employees may prefer over the traditional defined benefit plan (DB). This would reduce the cost of retirement funding for employees. Pay and benefits for teachers and administrators is heavily backloaded, penalizing non-career teachers that leave the education industry. Augenblick and Associates, based on an analysis of the retirement systems of Arkansas, Idaho, Indiana, Maryland, Mississippi, Utah and West Virginia, estimated the savings by moving to a defined benefit (DB) to a defined contribution (DC) plan. The researchers concluded that states could save as much as 3 percent of a teacher's yearly salary by adopting a DC plan. This would mean a savings for Nebraska of roughly \$33 million annually just for instruction personnel.³⁵
- » Reform rules for calculation of highest average salary to reduce pension spiking practices.
- » **Contracting.** The Nebraska Unicameral could assist K-12 education in the state by adopting a three-year pilot program that would permit local districts to contract with private schools or other nearby public school districts to educate some of their students.³⁶ The program could specify that the cost of tuition at the contract school would be some proportion of the district's average per pupil spending. Fifty percent of any difference between the public per pupil spending and the contract spending would remain for the district's use, and the other half would become savings for the state government. This would produce funding for the local district even though the public schools would no longer expend resources to educate that student.³⁷ Ten states and the District of Columbia have adopted a similar program and demonstrated their effectiveness. A 2007 study funded by the Milton and Rose D. Friedman Foundation estimated that since 1990, these 11 jurisdictions had saved at least \$444 million by creating programs that help students transfer from traditional public schools to less-expensive alternatives - both private and public. This represents a method

by which the state of Nebraska could reign in state spending and, at the same time, provide financial benefits to the local school district.

- » **65 Cent Solution.** Across the nation, education reformers are pushing the program entitled First Class Education. This program requires that at least 65 cents of every dollar in a school district's operational budget goes into the classroom - the one place where student performance can be improved and overall effectiveness dynamically enhanced. Legislatures in Louisiana and Kansas have already passed "65 Cent" legislation and Texas Governor Rick Perry recently imposed the "65 Cent solution" by executive order. Moreover, voters in many other states may see this measure in upcoming ballots. Under the South Dakota proposed plan, each school district spending less than 65 percent in the classroom would be required to increase its percentage going to teaching by 2 percentage points yearly until reaching the 65 percent goal. School districts that were unable to meet this goal due to factors

such as excessive transportation costs could petition the waiver for the current year. Thus, those spending less than 65 percent on the classroom become the exception rather than the rule.

Table 3.14 shows the distribution of K-12 spending for Nebraska and its neighbors. Data indicates that, at this point in time, Nebraska spends the highest percentage of its overall spending on instruction than any of its neighbors. On the other hand, Nebraska spends the largest percentage of total K-12 spending on administration in comparison to its neighbors. Thus, Nebraska could reduce its administration spending significantly to achieve the 65 Cent Solution. Table 3.15 shows the yearly economic benefits of implementing the 65 Cent Solution. Data indicates that funds would increase for instruction from \$1.096 billion to \$1.133 billion and reduced administration funding from \$130.2 million to \$56.1 million. This would create a yearly savings of \$37.1 million with an increase in instruction spending.

Table 3.14: K-12 Education Spending by Function, Nebraska and Border States

	Percent instruction	Percent Support Services	Percent Admin.
	61.8%	33.8%	4.4%
Colorado	57.8%	38.5%	3.6%
Iowa	61.3%	33.8%	4.8%
Kansas	57.6%	37.3%	5.0%
Missouri	61.3%	34.4%	4.3%
Nebraska	62.9%	29.7%	7.5%
South Dakota	61.5%	32.9%	5.6%
Wyoming	60.7%	35.8%	3.5%
Region	60.1%	35.2%	4.7%

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), National Public Education Financial Survey.

Table 3.15: Potential savings for the Nebraska 65 Cent Solution

	<u>Before 65 Cent Solution</u>		<u>After 65 Cent Solution</u>	
	Percent of Total	Spending	Spending	Percent of Total
Instruction	62.9%	\$1,096,383,026	\$1,133,465,709	65.0%
Support services	29.7%	\$517,167,327	\$517,167,327	29.7%
Administration	7.5%	\$130,243,045	\$56,077,680	3.2%
Total	100.0%	\$1,743,793,398	\$1,706,710,715	100.0%
Yearly savings		\$37,082,683		

Summary

This chapter has demonstrated that Nebraska tends to spend more heavily than its geographic neighbors on higher education and on elementary and secondary education. In general, Nebraska's higher K-12 education spending is the result of too few students per school district and teacher. Statistical data points to savings for the state if it reduced the number of school districts to 93, or one per county, and the state increased its student to teacher ratio to the national average. Furthermore, national state data indicates that big education spending states have not experienced superior economic performance.

Chapter 4: Public Welfare Spending³⁸

Chapter overview

- » As a percent of GSP, Nebraska's public welfare spending was only slightly above that of its border states in the years spanning 1993-1999 and was well below that of the U.S. – but climbed between 1998 and 1999, rising above that of both its surrounding states and the U.S.
- » If Nebraska had spent the same percent of its GSP in 2007 on public welfare as did the six states on its boundaries, it would have saved \$143 per capita that year for a total of \$252,935,931. If Nebraska had spent at the level of the U.S., it would have cost the state \$122,645,633 more in total in 2007, or \$69 per capita.
- » In 2006, the top economic performing states spent a smaller share of their GSP on public welfare (2.4 percent) than the bottom perform-

ing states (3.1 percent). Moreover, the growth in public welfare spending as a proportion of GSP between 1999 and 2006 was less for the high performing group of states (0.10 percent), than low performing states (0.30 percent). To some degree this is expected. That is, as a state loses economic momentum, it incurs higher levels of unemployment and lower rates of income growth. As a result, state and local government is required to spend more on public welfare.

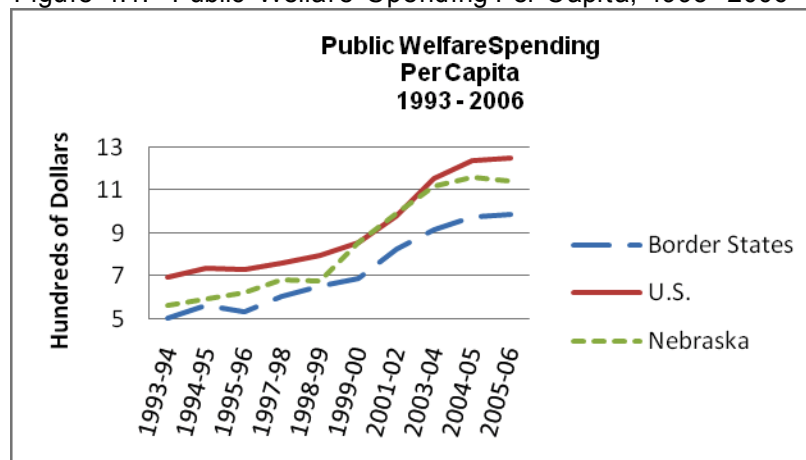
On public welfare spending per capita, Nebraska has spent more dollars each year than the states nearby – but fewer than the U.S. (See Figure 4.1). Following a peak in 2004-05, Nebraska's spending leveled out through 2006. Primarily due to an escalation in Nebraska's spending between 1999 and 2004, when Nebraska's neighbors and the U.S. were increasing their spending on public welfare at a more modest rate, Nebraska's growth over 13 years – 102 percent - was ultimately greater than either of the states surrounding it (97 percent) or that of the U.S. (79 percent) as conveyed in Table 4.1.

Table 4.1: Public Welfare Spending Per Capita 1993–2006

	1993	2006	Change
Border states	\$502	\$987	97%
U.S.	\$698	\$1,252	79%
Nebraska	\$564	\$1,142	102%

Source: U.S. Census

Figure 4.1: Public Welfare Spending Per Capita, 1993–2006



Source: U.S. Census

As a percent of GSP, as shown in Figure 4.2, Nebraska's public welfare spending was only slightly above that of its border states in the years spanning 1993-1999 and was well below that of the U.S. – but leapt up between 1998 and 1999, rising above that of both its surrounding states and the U.S. Nebraska's spending as a percent of GSP did begin to drop in 2003 but generally reflected an increase over time of .49 percent compared to its neighbors' .32 percent growth and more than double the U.S.'s growth of .21 percent. Table 4.2 makes apparent the relative increases in public welfare spending of Nebraska, its bordering states, and the U.S. Table 4.3, which separates the percent of growth data into 1993-1999 vs. 1999-2006 emphasizes the dramatic relative growth (despite the subsequent decline) in spending of all three entities in the more recent years.

As Table 4.4 indicates, if Nebraska would have spent the same percent of its GSP in 2007 as the six states on its boundaries did in 2006, it would have saved \$143 per capita that year and a total of \$252,935,931. If it had spent at the level of the U.S., it would have cost the state \$122,645,633 more in 2007, or \$69 per capita.

Table 4.2: Public Welfare Spending as percent of GSP, 1993–2006

	1993	2006	Change
Border States	2.13%	2.45%	.32%
U.S.	2.79%	3.00%	.21%
Nebraska	2.33%	2.81%	.49%

Source: U.S. Census

Table 4.3: Public Welfare Spending growth as percent of GSP, 1993–2006

	Percent Growth 1993-1999	Percent Growth 1999-2006
Border States	-0.05%	0.37%
U.S.	-0.31%	0.52%
Nebraska	-0.16%	0.64%

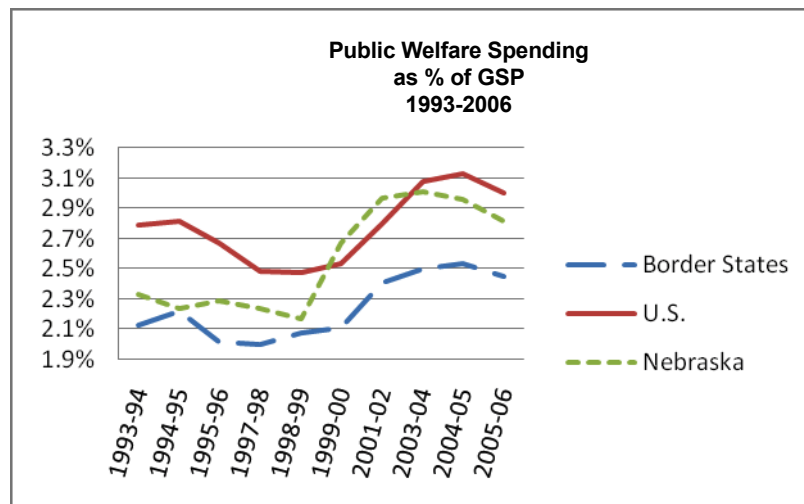
Source: U.S. Census

Table 4.4: Savings if Nebraska Spent Same percent of GSP as Border States or U.S.

	2007 Savings Total	2007 Savings Per Capita
Savings vs. Border States	\$252,935,931	\$143
Savings vs. U.S.	-\$122,645,633	-\$69

Source: U.S. Census

Figure 4.2: Public Welfare Spending as percent of GSP, 1993–2006



Source: U.S. Census

Privatizing care for disabled

An example of savings for Nebraska has recently surfaced in the operations of the Beatrice State Developmental Center. Currently the state is spending over \$37 million annually to support the care of approximately 240 disabled citizens. An additional \$29 million in federal support is expected in 2009. Table 4.5 shows a comparison between state cost and the cost estimated by Mosaic, a private, religiously affiliated care provider for the disabled.

As indicated, total savings to the state for the privatization of the Beatrice Development Center would range between \$4.2 million and \$7.3 million depending on the configuration of the care facility.³⁹

Table 4.5: Savings if Nebraska Privatized the Beatrice Development Center, 2009

	Four bed	Six bed	Eight bed
Mosaic unit costs	\$552,438	\$749,204	\$1,078,775
State unit costs	\$621,960	\$932,940	\$1,243,920
Mosaic total costs for 240 patients	\$33,146,280	\$29,968,160	\$32,363,250
State total costs for 240 patients	\$37,317,600	\$37,317,600	\$37,317,600
Total savings to Nebraska taxpayer	\$4,171,320	\$7,349,440	\$4,954,350
Source: Mosaic estimates & state budget numbers (does not include federal support)			

Economic performance and public welfare spending

One could easily hypothesize either a positive or negative relationship between welfare spending and economic performance. If slow economic progress in a state results in more and more individuals and families losing their jobs and health insurance coverage, there may be a negative relationship between the two. That is as economic growth wanes, public welfare spending increases. On the other hand, rapid economic growth could provide state and local government jurisdictions with more funds to provide lower income individuals with public goods and service. In this case, there would be a positive association between the two factors.

Figure 4.3 provides some guidance on the relationship. According to data in the figure, the top economic performing states spent a smaller share of their GSP on public welfare (2.4 percent) than the bottom performing states (3.1 percent). Moreover, the growth in public welfare spending as a proportion of GSP between 1999 and 2006 was less for the high performing group of states (0.10 percent) than low performing states (0.30 percent). Statistically speaking, the direction of causation is not conclusive in this figure since it is certainly possible that high performing states are allowed to spend less on public welfare than low performing states. Furthermore, under performing states may be spending more heavily on public welfare due to slower economic growth in the past.

Figure 4.3: Public Welfare Spending

		Job growth	
		Above average	Below average
Per capita income growth	Above average	<p>Quadrant 1</p> <p>Public welfare spending as % of GSP = 2.4%</p> <p>SD (2.3%), WY (2.0%)</p> <p>Growth in public welfare spending as a % of GSP = 0.10%</p> <p>SD (0.8%), WY (-0.8%)</p>	<p>Quadrant 2</p> <p>Public welfare spending as % of GSP = 3.6%</p> <p>NE (2.7%)</p> <p>Growth in public welfare spending as a % of GSP = 0.39%</p> <p>NE (0.0%)</p>
	Below average	<p>Quadrant 4</p> <p>Public welfare spending as % of GSP = 2.5%</p> <p>CO (1.6%)</p> <p>Growth in public welfare spending as a % of GSP = 0.19%</p> <p>CO (-0.2%)</p>	<p>Quadrant 3</p> <p>Public welfare spending as % of GSP = 3.1%</p> <p>IA (2.9%), KS (2.6%), MO (2.7%)</p> <p>Growth in public welfare spending as a % of GSP = 0.33%</p> <p>IA (0.3%), KS (0.9%), MO (0.3%)</p>

Recommendations:

- » Nebraska should attempt to gear Medicaid subsidies to the beneficiary's income and possible health risk. Nebraska should also establish other features, such as cost sharing, to prepare families to transition to private coverage.
- » Nebraska should provide a range of Medicaid coverage options such that beneficiaries should not be forced to buy a policy with a government-dictated list of benefits and coverage mandates.
- » Nebraska should insure that Medicaid beneficiaries have easy access to information about the private and public health insurance coverage options that are available to them. Once the individual is provided more consumer-friendly information and financial resources, they can more easily select the insurance that best meets their needs.⁴⁰
- » Nebraska should attempt to expand health care cost information by encouraging healthcare providers to adopt programs such as Alegant Health's "My Cost" tool. This on-line tool, if implemented at medical facilities across the state, would produce significant savings for the state by supplying a much higher degree of cost transparency. By providing financial incentives for Medicaid recipients, those covered would be provided with a list of prices for frequently purchased services, in addition to information on financial assistance programs for cost-prohibitive services. Over the past two years, "My Cost" has provided 37,000 consumers with health price information. The tool could query payers for eligibility and benefit information for a given Medicaid patient. To date, seven payers are participating in the program and Alegant Health expects many more in the months to come. Tommy Thompson, former secretary of the U.S. Department of Health and Human Services, said of the application, "These are the kinds of breakthroughs that are going to allow transparency to come front and center."
- » The state should privatize the Beatrice Community Development Center. Implementing this recommendation would save the state between \$4.1 million and \$7.3 million depending on the configuration of the operations.
- » There are several states testing new technologies that reduce staffing costs and are trying to get at the issue of providing what an individual needs versus what they want. Indiana is currently testing REST ASSURED, a project that maximizes the use of two-way video systems that can support those who need minimal support but cannot live completely independent in the community. Thus far programs like this are showing increased consumer satisfaction with lower cost. Nebraska should examine the potential of such a system.
- » The central key to solving the cost issue for Nebraska's Medicaid system is how the Medicaid state plan is written paired with the inefficiencies of current case management systems. Most case management systems are coordinated by state employees who see everything as an entitlement for their clients and as a result through individual care plans drive costs higher for the provider. In other words, the case management systems in most states, and particularly in Nebraska, need significant reform, while disempowering them in a way that does not drive up costs.
- » It is contended that the key may rest with a consistent and equitable assessment for each individual and that funding should be tied to those needs and not be based on any group average. This may seem simple but when case managers play such a key role in driving costs we should be looking at this recommendation closely.
- » State Medicaid policy should encourage more flexible supports and regulations that are necessary and valued by the consumer.
- » It is recommended that particular attention should be paid to the elimination of rules and regulations that are tied to a facility or license rather than basic health and safety assurances and individual needs, additionally administrative requirements should be reduced.

» Consider program models that can reduce costs and provide high consumer satisfaction: Mosaic, Inc. Adult Foster Care, often called host homes, is highly personalized, highly cost effective and often significantly less expensive than a group home for example. Supported living, for those who are in group homes, but could thrive in less restrictive settings, also can provide similar results. Supporting individuals in their own home with cash payments to family members can also achieve the same results.

Summary

This chapter has documented public welfare spending in Nebraska and compared it to that of its neighboring states in terms of magnitude and growth. Between 1993 and 2006, Nebraska's growth in public welfare spending has been slightly less than that of its neighboring states, but well above that of the U.S. As a percent of GSP, Nebraska's public welfare spending was only slightly above that of its border states in the years spanning 1993-1999 and was well below that of the U.S. – but leapt up between 1998 and 1999, rising above that of both its surrounding states and the U.S. Data also indicates that top economic performing states generally spent a smaller share of their GSP on public welfare than bottom economic performing states.

Chapter 5: Highway Spending

Chapter overview

- » From a longitudinal standpoint, Nebraska, its neighbors and the U.S. all reduced their spending as a percent of GSP on highways between 1993 and 2006
- » Nebraska could have saved a total of \$109,616,983 - \$62 per capita – in 2007 if it had spent only the percentage of its GSP in 2007 its adjoining states did; if it had spent as little as the U.S. of its GSP, it would have realized a \$320,620,061, or \$181 per capita savings.
- » The top economic performing states spent the same share of their GSP on highways (1.2 percent) as the bottom performing states (1.2 percent) in 2006. Moreover, the pullback in highway spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states (-14.3 percent) than low performing states (-7.4 percent).

While comparison data was not available for the U.S., Nebraska also trailed the states on its borders in highway spending per highway mile. Table 5.1 displays the amount spent per highway mile in both 1993 and in 2006, and Table 5.2 breaks down the difference in growth in the years prior to 1999 and the years subsequent to 1999, showing that while Nebraska's neighbors spent more on per highway mile spending in the earlier years, Nebraska increased its spending more recently.

As per Figure 5.1, until 2001-02, Nebraska was generally on par with the states around it in per capita highway spending but ramped up in the years following 2003. This figure also shows that both Nebraska and its neighbors consistently spent more on their highways per capita than the U.S. In growth between 1993 and 2006, however, Nebraska's 57 percent rise in spending and the 54 percent growth of the states nearby was surpassed by the U.S.'s 64 percent increase. Spending figures portraying this growth are represented in Table 5.3.

Table 5.1: Highway spending per highway mile, 1993-2006

	1993	2006
Border States	\$9,647	\$16,925
Nebraska	\$6,871	\$11,764
U.S. not included due to unavailability of consistent data.		
Source: U.S. Census		

Table 5.2: Highway spending growth per highway mile, 1993-2006

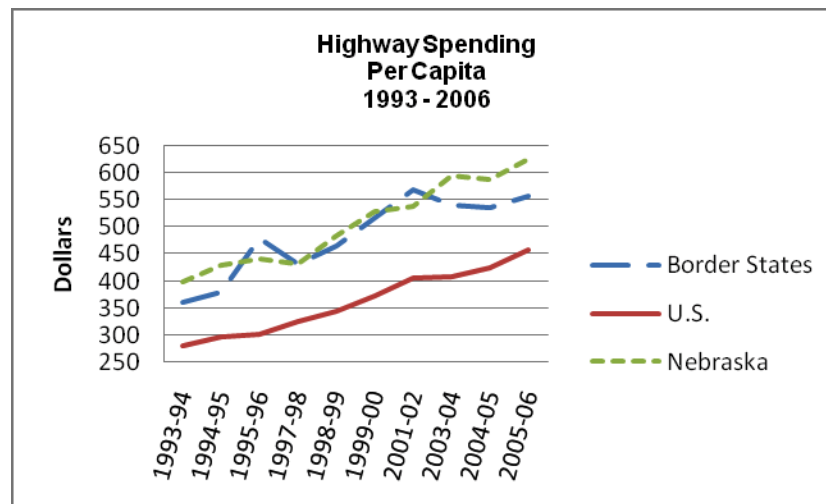
	Percent Growth 1993-1999	Percent Growth 1999-2006
Border States	35.4%	29.6%
Nebraska	25.0%	37.0%
U.S. not included due to unavailability of consistent data.		
Source: U.S. Census		

Table 5.3: Highway Spending Per Capita, 1993–2006

	1993	2006	Change
Border States	\$361	\$557	54%
U.S.	\$280	\$458	64%
Nebraska	\$398	\$626	57%

Source: U.S. Census

Figure 5.1: Highway Spending Per Capita, 1993–2006



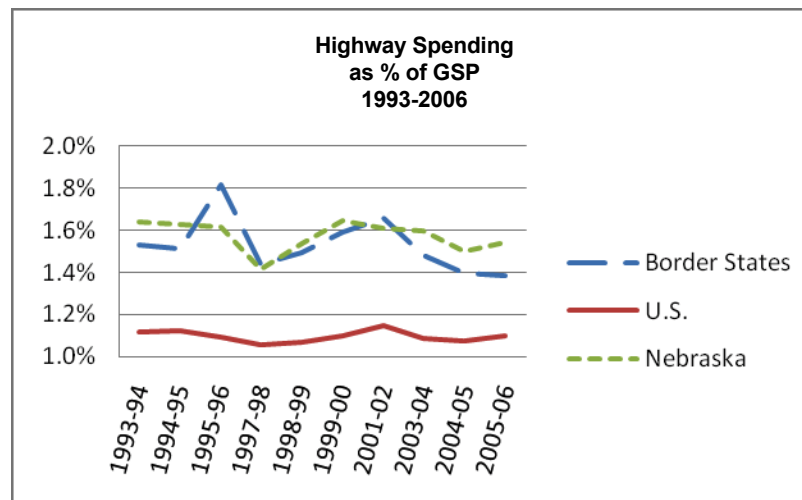
Source: U.S. Census

Table 5.4: Highway spending as percent of GSP, 1993–2006

	1993-94	2005-06	Change
Border states	1.53%	1.38%	-0.15%
U.S.	1.12%	1.10%	-0.02%
Nebraska	1.64%	1.54%	-0.10%

Source: U.S. Census

Figure 5.2: Highway spending as percent of GSP, 1993–2006



Source: U.S. Census

Nebraska and the states that border it tracked very closely on highway spending from 1993–2006 in relation to their GSP as well. Again, only in 2003 did Nebraska begin to diverge to any significant degree from what neighboring states were spending on highways, and both spent a higher percentage of their GSP than did the U.S. Although the relationship of Nebraska to its neighbors and to the U.S. is similar with regard to spending as a percent of GSP as to that of per capita spending, Table 5.4 and Figure 5.2 paint a different picture of the direction in the growth of that spending. From a longitudinal standpoint, Nebraska, its neighbors and the U.S. all reduced their spending as a percent of GSP over the

13 years between 1993 and 2006, with Nebraska spending 0.10 percent less of its GSP in 2006 than it had in 1993. Nebraska's bordering states' spending as a percent of GSP declined even more - 0.15 percent, while the U.S. saw its spending go down by 0.02 percent of its GSP.

Based on the analysis of 2006 data above, Nebraska could have saved a total of \$109,616,983 - \$62 per capita - in 2007 if it had spent only the percentage of its GSP in 2007 its adjoining states did; if it had spent as little as the U.S. of its GSP, it would have realized a \$320,620,061, or \$181 per capita savings. Table 5.5 compares these potential savings.

Table 5.5: Savings if Nebraska spent same percent of GSP as border states or U.S.

	2007 Savings Total	2007 Savings Per Capita
Savings vs. Border States	\$109,616,983	\$62
Savings vs. U.S.	\$320,620,061	\$181
Source: U.S. Census		

Economic performance and highway spending

One could easily hypothesize either a positive or negative relationship between highway spending and economic performance. If slow economic progress in a state results in more and more funds having to be diverted to other portions of government budgets, then there would be a positive relationship between the two. That is, as economic growth wanes, highway spending would also shrink as a share of GSP. On the other hand, funds spent on highways could support an even larger increase in economic growth so that highway spending, as a share of GSP, declines. In this case, there would be a negative association between the two factors.

Figure 4.4 provides some guidance on the relationship. According to data in the figure, the top economic performing states spent the same share of their GSP on highways (1.2 percent) as the bottom performing states (1.2 percent). Moreover, the pullback in highway spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states (-14.3 percent) than low performing states (-7.4 percent). Statistically speaking, the direction of causation is not conclusive in this figure since it is certainly possible that high performing states are allowed to spend proportionally less on highways than low performing states. Furthermore, under performing states may be spending more heavily on highways in anticipation of greater future economic growth stemming from the spending.

Figure 4.4: Economic performance and highway spending

		Job growth	
		Above average	Below average
Per capita income growth	Above average	<p>Quadrant 1</p> <p>Highway spending as % of GSP = 1.2% SD (1.2%), WY (1.9%)</p> <p>Growth in highway spending as a % of GSP = -14.3% SD (-5.0%), WY (-27.7%)</p>	<p>Quadrant 2</p> <p>Highway spending as % of GSP = 1.4% NE (1.5%)</p> <p>Growth in highway spending as a % of GSP = -10.5% NE (-11.5%)</p>
	Below average	<p>Quadrant 4</p> <p>Highway spending as % of GSP = 0.9% CO (0.9%)</p> <p>Growth in highway spending as a % of GSP = -11.0% CO (-18.0%)</p>	<p>Quadrant 3</p> <p>Highway spending as % of GSP = 1.2% IA (1.5%), KS (1.6%), MO (1.3%)</p> <p>Growth in highway spending as a % of GSP = -7.4% IA (-28.4%), KS (-25.8%), MO (-1.4%)</p>

Recommendations:

- » Nebraska should evaluate the privatization of roads and highways where appropriate. Likewise where appropriate, Nebraska should investigate the privatization of newly constructed bridges in the state.
- » Nebraska should evaluate the use of toll roads to offload at least a portion of the costs to non-Nebraskans. Variable rate tolling would create an incentive for those who want to drive quickly to pay for the privilege of an uncongested road during peak usage time. It would still allow others to drive for free, in slower traffic, if they prefer. Most importantly, by allowing such a choice, this form of tolling can serve as a powerful incentive for those with greater time flexibility to stay off the road entirely during peak periods.⁴¹ New, privately financed capacity that is paid for by tolling does not result in losers among either users or taxpayers; drivers can choose to use the old, free roads and taxpayers aren't stuck with the construction bill.
- » The aforementioned study's author, Kenneth Small, an economics professor at the University of California at Irvine, asks whether capacity expansion is always the best way to deal with congestion? But what about altering existing highways to set usage rates that vary based on the time of day, or on observed traffic patterns? Adding capacity without instituting a pricing mechanism serves as an incentive for more people to drive during peak periods. This increases the congestion that the new capacity was intended to relieve. That is, increasing capacity in many cases may not be economically justifiable.

Summary

This chapter has profiled state and local highway spending from 1993 to 2006. In total spending growth on highways and in spending growth per highway mile, Nebraska trailed both its bordering states and the U.S. for most years between 1993 and 2006. From a longitudinal standpoint, Nebraska, its neighbors and the U.S. all reduced their spending as a percent of GSP on highways between 1993 and 2006 and between 1999 and 2006. Accordingly, Nebraska could have saved a total of \$109,616,983 in 2007 if it had spent the same percentage of its GSP as its adjoining states did. If it had spent the same share of GSP as all states, Nebraska would have realized a \$320,620,061 savings. U.S. Census data also shows that the top economic performing states spent the same share of their GSP on highways (1.2 percent) as the bottom performing states (1.2 percent) in 2006. Moreover, the pullback in highway spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states (-14.3 percent) than low performing states (-7.4 percent).

Chapter 6: Public Safety Spending⁴²

Chapter overview

- » Nebraska has grown its public safety spending at a much greater rate between 1993 and 2006 than either border states or the U.S.
- » Per capita, Nebraska consistently spends slightly less than its neighboring states and substantially less than the U.S.
- » Both the U.S. and Nebraska's border states spend a greater percent of their GSP in public safety than does Nebraska; therefore were Nebraska to match its expenditure on public safety to that of either the states that surround it or the U.S., greater expense would result to Nebraska taxpayers.
- » The top economic performing states spent a much larger share of their GSP on public safety than the bottom performing states. Moreover, the pullback in public safety spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states than low performing states.

Despite Nebraska's significant relative growth in public safety spending discussed above, however, in terms of public safety spending per capita, Nebraska has lagged slightly behind its nearby states and well behind the U.S. in each year between 1993 and 2006. As exhibited in Table 6.1 and Figure 6.1, while the same growth in spending pattern that was apparent in overall public safety spending is seen again in a per capita analysis, with Nebraska remaining close but below the border states and far below the U.S., in actual dollars, in 1993 Nebraska spent only \$226 per capita to its border states' \$270 and the U.S.' \$363, and in 2006, Nebraska's \$482 in public safety spending per capita was again outranked by both that of its neighboring states (\$503) and the U.S. (\$641).

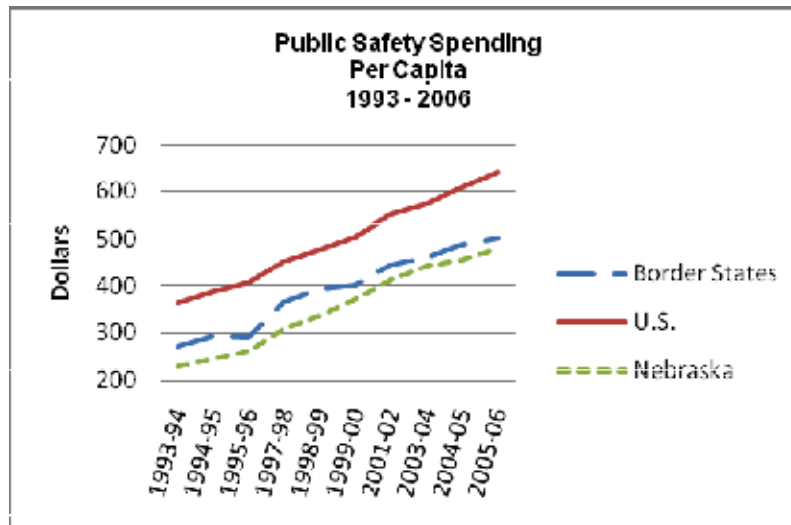
As a percent of GSP, Nebraska's spending on public safety has again been consistently less than that of either its neighbors or the U.S. Table 6.2 provides the specifics of spending as percent of GSP of each group in 1993 and again in 2006 as well as the change over time those numbers represent. Table 6.3 suggests that the growth in public safety spending between 1993 and 2006 that has been noted was a bit greater from 1993-1999 (14 percent) than from 1999-2006 (12 percent), and Figure 6.2 brings this into focus: While all three groups have experienced steady growth in public safety spending over time, between 1994 and 2002, Nebraska's public safety spending climbed precipitously (followed by a decline and subsequent rise), narrowing the gap between it and the spending of Nebraska's adjoining states.

Table 6.1: Public safety spending per capita, 1993–2006

	1993	2006	Change
Border States	\$270	\$503	87%
U.S.	\$363	\$641	76%
Nebraska	\$226	\$482	113%

Source: U.S. Census

Figure 6.1: Public safety spending per capita, 1993–2006



Source: U.S. Census

Table 6.2: Public safety spending as percent of GSP, 1993–2006

	1993	2006	Change
Border states	1.15%	1.25%	0.10%
U.S.	1.45%	1.54%	0.08%
Nebraska	0.93%	1.19%	0.26%

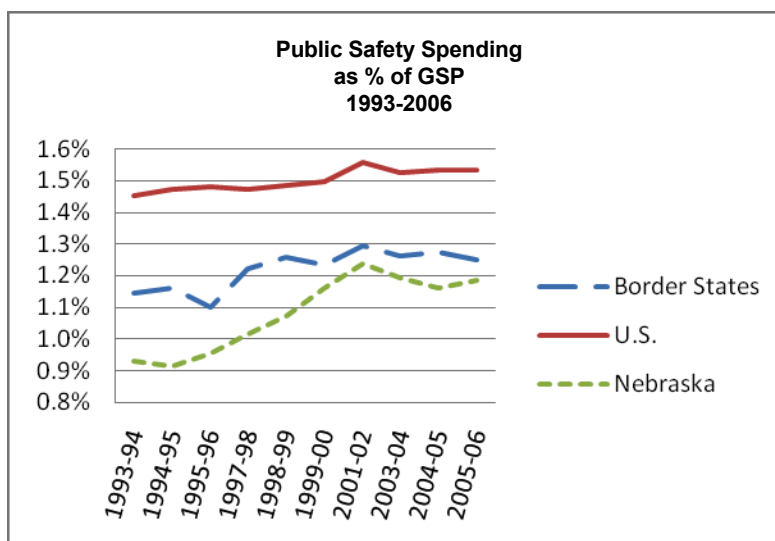
Source: U.S. Census

Table 6.3: Public safety spending as percent of GSP, 1993–2006

	Percent growth 1993-1999	Percent growth 1999-2006
Border States	0.11%	-0.01%
U.S.	0.03%	0.05%
Nebraska	0.14%	0.12%

Source: U.S. Census

Figure 6.2: Public safety spending as percent of GSP, 1993–2006



Source: U.S. Census

While it is useful to consider potential savings if Nebraska were to alter its spending, in the case of public safety, as Nebraska already spends less as a percent of GSP than either its neighboring states or the U.S. would result in an additional expense to taxpayers. Per Table 6.4, matching the 2006 spending rate of border states in 2007 would have cost Nebraska \$47,012,776 – or \$27 per capita – and matching the spending rate of the U.S. would have totaled an additional \$242,511,506 – or \$137 per capita.

Table 6.4: Savings if Nebraska spent same percent of GSP as border states or U.S.

	2007 Savings Total	2007 Savings per Capita
Savings vs. Border States	-\$ 47,012,776	-\$27
Savings vs. U.S.	-\$242,511,506	-\$137
Source: U.S. Census		

Economic performance and public safety spending

One could easily hypothesize either a positive or negative relationship between public safety spending and economic performance. If slow economic progress in a state results in more and more individuals and families losing their jobs, there may be a negative relationship between the two. That is as economic growth wanes, state and local government agencies may be required to spend more on public safety. On the other hand, rapid economic growth could provide state and local government jurisdictions with more funds to provide higher levels of public safety. In this case, there would be a positive association between the two factors.

Figure 6.3 provides some guidance on the relationship. According to data in the figure, the top economic performing states spent a much larger share of their GSP on public safety (1.5 percent) than the bottom performing states (1.2 percent). Moreover, the pullback in public safety spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states (-0.12 percent) than low performing states (-0.07 percent). Statistically speaking, the direction of causation is not conclusive in this figure since it is certainly possible that high performing states are allowed to spend proportionally less on public safety than low performing states. Furthermore, under performing states may be spending more heavily on public safety in anticipation of greater future economic growth stemming from the spending.

Figure 6.3: Economic performance and public safety spending

		Job growth	
		Above average	Below average
Per capita income growth	Above average	<p>Quadrant 1</p> <p>Public safety spending as % of GSP = 1.5%</p> <p>SD (1.1%), WY (1.5%)</p> <p>Growth in public safety spending as a % of GSP = -0.12%</p> <p>SD (0.10%), WY (-0.16%)</p>	<p>Quadrant 2</p> <p>Public safety spending as % of GSP = 1.4%</p> <p>NE (1.1%)</p> <p>Growth in public safety spending as a % of GSP = -0.13%</p> <p>NE (-0.12%)</p>
	Below average	<p>Quadrant 4</p> <p>Public safety spending as % of GSP = 1.3%</p> <p>CO (1.3%)</p> <p>Growth in public safety spending as a % of GSP = -0.14%</p> <p>CO (-0.15%)</p>	<p>Quadrant 3</p> <p>Public safety spending as % of GSP = 1.2%</p> <p>IA (1.0%), KS (1.2%), MO (1.2%)</p> <p>Growth in public safety spending as a % of GSP = -0.07%</p> <p>IA (-0.08%), KS (-0.12%), MO (-0.07%)</p>

Recommendations:

- » The state should evaluate and potentially remove early retirement subsidies for public safety employees.
- » Nebraska should reform rules for calculation of highest average salary to reduce pension spiking practice on the part of public safety employees.
- » Nebraska should grant new hires the option to choose a defined contribution plan, which non-career employees may prefer over the traditional defined benefit plan. This would reduce the cost of retirement funding for employees. Pay and benefits for public safety employees is heavily backloaded, penalizing non-career employees that leave the industry.

Summary

This chapter profiled public safety spending in Nebraska between 1993 and 2006 and compared it to the states contiguous to Nebraska and to the U.S. The U.S. Census data shows that public safety spending in Nebraska grew at a much greater rate between 1993 and 2006 than in either border states or the U.S. However, Nebraska consistently spends slightly less than its neighboring states and substantially less than the U.S. on a per capita basis. Both the U.S. and Nebraska's border states spend a greater percent of their GSP in public safety than does Nebraska; therefore were Nebraska to match its expenditure on public safety to that of either the states that surround it or the U.S., greater expense would result to Nebraska taxpayers. The top economic performing states spent a much larger share of their GSP on public safety than the bottom performing states. Moreover, the pullback in public safety spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states than low performing states.

Ernie Goss, Biography

Ernie Goss is currently the MacAllister Chair and Professor of Economics at Creighton University in Omaha, Nebraska and Director of the Goss Institute in Denver, Colorado. He received his Ph.D. in economics from the University of Tennessee in 1983. He was a visiting scholar with the Congressional Budget Office for 2003-04. In the fall of 2005, the Nebraska Attorney General appointed Goss to head a task force examining gasoline pricing in the state. He is also a past faculty research fellow with the National Aeronautics and Space Administration (NASA).

He has published over eighty research studies focusing primarily on economic forecasting and on the statistical analysis of business and economic data. His book, Changing Attitudes toward Economic Reform during the Yeltsin Era, was published by Praeger Press in 2003 and his book, Governing Fortune: Casino Gambling in America, was published by the University of Michigan Press in 2007 (www.ernestgoss.com and www.outlook-economic.com).

He is editor of Economic Trends, an economics newsletter published three times per year. He is the past president of the Omaha Association of Business Economics and the National Purchasing Management Association-Nebraska. He also serves on the Board of Directors of Mosaic, Inc.

To gauge regional economic conditions, Goss conducts a monthly survey of bank CEOs in rural areas of 11 states and a monthly survey of supply managers in 12 states. Results from the two surveys are carried in over 100 newspapers, 20-30 radio stations and scores of other media outlets each month. Recent citations appeared in the Wall Street Journal, Business Week, Forbes, and as well as regional newspapers such as the Denver Post, the Kansas City Star, and the Minneapolis Star-Tribune.

Please address all correspondence to:

The Goss Institute

600 17th Street, Suite 2800 South
Denver, Colorado 80202-5428

Email: info@ernestgoss.com

www.ernestgoss.com

Phone: 303.226.5882

Footnotes

¹"The Effects of State and Local Taxes on Economic Development: A Meta Analysis." *Southern Economic Journal*, Vol. 62(2), October 1995, pp. 320-333. Also "Should I Live in Nebraska," produced for the Platte Institute in April 2008. http://www.platteinstitute.org/docLib/20080505_Should_I_Live_in_Nebraska5.5.pdf

²Deskins, John. 2009. "Are Tax Policy Distortions Increasing?" Creighton University: Working Paper. Available online at <https://people.creighton.edu/~jad62470/TaxPolicyDistortions.pdf> Accessed February 19, 2009.

³Throughout this study, comparisons are made to Nebraska's neighbors defined as states bordering Nebraska which include Colorado, Iowa, Kansas, Missouri, South Dakota, and Wyoming.

⁴Gross state product (GSP) is a measurement of the economic output of a state. It is the sum of all value added by industries within the state and is analogous to the nation's gross domestic product or GDP. As of the October 26, 2006 release, the U.S. Bureau of Economic Analysis renamed the gross state product (GSP) series to gross domestic product (GDP) by state. GSP is the convention used throughout this study.

⁵Utility spending comparisons between Nebraska and other states are not appropriate since Nebraska is the only state with all public utilities.

⁶Both of these estimates do not consider the potential additional costs of transportation or other related costs associated with the expansion in the student-teacher ratio such as construction costs for added classrooms.

⁷Augenblick, Palaich and Associates, "Analysis of Teacher Retirement System Issues," A Paper Commissioned by the National Center on Education and the Economy for the New Commission on the Skills of the American Workforce February 2007. http://www.skillscommission.org/pdf/commissioned_papers/Analysis_of_Teacher_Retirement.pdf

⁸Nebraska is one of only nine states that does not allow charter schools. The other states are Alabama, Maine, North Dakota, South Dakota, Vermont, Washington, and West Virginia.

⁹Throughout this study, high economic performing states are defined as those states that were in the top 25 percent of all states in terms of per capita income growth and job growth from 1999 to 2006. Low economic performing states are defined as states that were in the bottom 25 percent in the same two dimensions between 1999 and 2006.

¹⁰<http://www.bipps.org/ARTICLE.ASP?ID=1040>

¹¹Analysis supplied by Mosaic. As a matter of full disclosure, the author serves on the board of directors of the Mosaic Foundation.

¹²http://www.publicservice.co.uk/feature_story.asp?id=11133

¹³Portions of this chapter were drawn from Ernie Goss' "Nebraska's Tax Competitiveness: Should I Live in Nebraska?" published by the Platte Institute, 2008.

¹⁴Border states include Colorado, Iowa, Kansas, Missouri, South Dakota, and Wyoming.

¹⁵Gross state product (GSP) is a measurement of the economic output of a state. It is the sum of all value added by industries within the state and is analogous to the nation's gross domestic product or GDP. As of the October 26, 2006 release, the U.S. Bureau of Economic Analysis renamed the gross state product (GSP) series to gross domestic product (GDP) by state.

¹⁶Contributing to Nebraska's slower growth in the over 65 age category is the fact that Nebraska taxes retirement distributions while many states such as Wyoming and South Dakota do not tax retirement distributions.

¹⁷Source: University of Nebraska, Bureau of Business Research.

¹⁸The tax burden is almost certainly not distributed evenly based on income. However, this assumption is not crucial here because I am simply illustrating the relative change in the tax burden between 2005 and 2015.

¹⁹<https://people.creighton.edu/~jad62470/TaxPolicyDistortions.pdf>

²⁰Throughout this study, high economic performing states are defined as those states that were in the top 25 percent of all states in terms of per capita income growth (less taxes), and job growth from 1999 to 2006. Low economic performing states are defined as states that were in the bottom 25 percent in the same two dimensions between 1999 and 2006.

²¹Colorado residents first enacted TABOR (Taxpayer Bill of Rights) in 1992. TABOR established both a low limit for state expenditure growth and mandated immediate refunds to taxpayers of all surplus revenues when the expansion in state and local spending exceeded the climb in prices plus population.

²²"Indiana, for example, brought in \$3.8 billion in 2006 by leasing the Indiana Toll Road for 75 years. Chicago stands to collect \$2.5 billion by leasing Midway Airport, if the federal government approves, and has raised an additional \$3.5 billion since 2005 through deals for the Chicago Skyway toll road, parking ramps and parking meters," Associated Press in "Cash-strapped states look to sell roads, parks," Dec. 27, 2008, <http://www.msnbc.msn.com/id/28399839/>

²³McCurry, J. (2008, March b) "Money Hub." Site Selection 53(2): 266-70.

²⁴http://www.nyssenate47.com/47/news/08-09-25/senate_launches_accountability_in_government_spending_plan.aspx

²⁵Annual Review of State Legislative Activity, Site Selection, Nov. 2008, p. 943.

²⁶<http://www.window.state.tx.us/news2007/070605money.html>

²⁷<http://www.window.state.tx.us/comptrol/expendlist/cashdrill.php?id=ways>

²⁸U.S. News and World Reports, 2008.

²⁹Dynarski, Susan, "The Behavioral and Distributional Implications of Aid for College," American Economic Review, May 2002, p. 282. "A given dollar of subsidy does not consistently have a larger impact on the schooling of low-income or minority individuals. Indeed, the strongest empirical evidence is evenly divided on this matter, with half of the well-identified estimates indicating that the effect of a subsidy rises with income. Unpacking the sources of variation in this parameter is an important priority for future research."

³⁰Colorado 17.3; Iowa 13.9; Kansas 14.2; Missouri 14.2; South Dakota 13.6; Wyoming 13.1.

³¹Colorado 4,376; Iowa 1,325; Kansas 1,579; Missouri 1,754; South Dakota 738; Wyoming 1,795.

³²Colorado \$3,251; Iowa \$3,563; Kansas \$3,413; Missouri \$3,380; South Dakota \$3,171; Wyoming \$4,397

³³Metzger, Michael, "Preliminary Evidence on Optimal School Size: Econometric Analysis of Oklahoma Data," University of Central Oklahoma, Spring/Summer 2003. <http://www.libarts.uco.edu/political/organizations/opsr/Journal%20Vol4-Number1/5-Preliminary%20Evidence%20on%20Optimal%20School%20Size.pdf>

³⁴A gini coefficient is a measure of statistical dispersion most prominently used as a measure of inequality of income. A low gini coefficient indicates more equal income or wealth distribution, while a high gini coefficient indicates more unequal distribution.

³⁵Augenblick, Palaich and Associates, "Analysis of Teacher Retirement System Issues," A Paper Commissioned by the National Center on Education and the Economy for the New Commission on the Skills of the American Workforce, February 2007. http://www.skillscommission.org/pdf/commissioned_papers/Analysis_of_Teacher_Retirement.pdf

³⁶Nebraska is one of only nine states that does not allow charter schools. The other states are Alabama, Maine, North Dakota, South Dakota, Vermont, Washington, and West Virginia.

³⁷The Show Me Institute in Missouri made this recommendation in a recent report entitled "How to Improve Education While Spending Less Money," http://showmeinstitute.org/publication/id.175/pub_detail.asp

³⁸Public welfare, as classified by the U.S. Census Bureau includes state and local government spending cash assistance payments, vendor payments, and other public welfare. This category includes Medicaid spending.

³⁹As a matter of full disclosure, the author serves on the board of Mosaic's Foundation. However, estimates provided above came directly from Mosaic's financial unit.

⁴⁰<http://www.bipps.org/ARTICLE.ASP?ID=1040>

⁴¹http://showmeinstitute.org/publication/id.168/pub_detail.asp

⁴²Public safety, as classified by the U.S. Census Bureau includes state and local government spending police protection, fire protection, correction, and protective inspection and regulation.

Leading the Way



John McCollister



J. Peter Ricketts



Gail Werner-Robertson



Jay Vavricek



Michael Groene



Warren Arganbright

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Warren Arganbright

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10050 Regency Circle, Suite 120
Omaha, NE 68114
Phone: **402.452.3737**
Fax: **402.452.3676**
www.platteinstitute.org