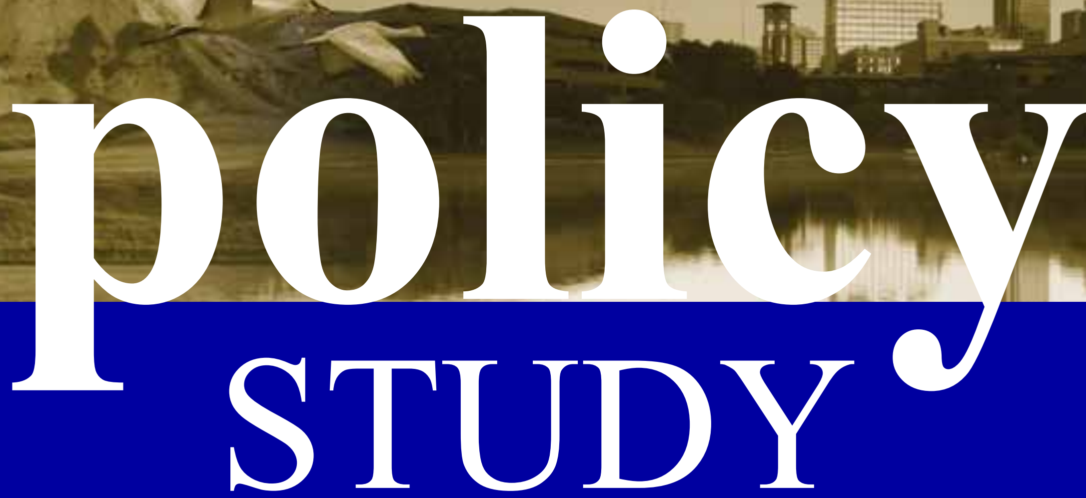

Platte INSTITUTE for economic research

Where Did the Money Go?

An Analysis of Spending and Revenue in Nebraska and Surrounding States, 2002-2008

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Executive Summary

The ongoing economic downturn has made life difficult for taxpayer, legislator, and bureaucrat alike. Those in the private sector have been adjusting to the new and ever-changing economic conditions for the past two and a half years, but government budgets, shielded somewhat from economic conditions (for a time, anyway) by political forces and interests, have been slower to adjust. This, accompanied by a lack of prudent fiscal planning and the apparent belief that the boom times would never end, has led states to spend beyond their means and made the ultimate correction more painful in the long run. We are now at that point of reckoning.

In order to determine where the money should go in the future, it is instructive to see where it has come from, and where it has gone in the recent past. Using U.S. Census data from 2002 through 2008, we looked at Nebraska's spending and revenue growth and per capita data in a number of categories and compared them to national averages and the figures for surrounding states. Nebraska generally came in about the same or a little below the aggregate national averages in the major spending and revenue categories (and a bit above the national average for general sales tax and corporate income tax revenue), although the national average tends to be skewed higher by the faster growing Southwestern states, large states such as Texas and Florida, and bigger-spending Eastern states. Thus, we determined that it would be more illuminating to measure Nebraska as compared to its neighboring states: Colorado, Iowa, Kansas, Missouri, South Dakota, and Wyoming.

Compared to its border states, Nebraska's spending and revenue performance during the period is somewhat of a mixed bag. Nebraska generally did better than some states, such as higher-spending Wyoming and Kansas, but not as good as others, such as Colorado and Missouri. Thus, Nebraska has not been as profligate as some of its neighbors, but neither has it been as thrifty as others. As such, it has not been able to escape, or more greatly soften, the blow of the effects of the recession.

Between 2002 and 2008, revenue actually increased significantly. Nebraska's total revenue increased 40 percent, a little lower than the aggregate increase of all states (48 percent) but squarely in the middle range of its bordering states. Its total tax revenue increased 41 percent, slightly below the aggregate increase of all states (46 percent) but ahead of all neighboring states except Wyoming and Kansas in terms of both the increase in revenue and 2008 revenue per capita.

Total Tax Revenue, 2002-2008

State	2002 Revenues (Thousands of Dollars)	2008 Revenues (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Revenues	2008 Per Capita Rank
Nebraska	**2,992,522**	**4,228,800**	**41%**	**31**	**2,372**	**29**
Colorado	6,923,171	9,624,636	39%	36	1,949	41
Iowa	5,006,251	6,892,026	38%	39	2,295	37
Kansas	4,808,361	7,159,748	49%	17	2,555	22
Missouri	8,728,932	10,965,171	26%	48	1,855	47
South Dakota	976,596	1,321,368	35%	41	1,643	50
Wyoming	1,094,402	2,168,016	98%	3	4,068	3
U.S. Total	**535,191,161**	**780,689,445**	**46%**		**2,568**	

During this period, Nebraska's total state spending increased 29 percent, slightly lower than the aggregate increase of all states and about the same as most of its surrounding states. It also placed in the middle of the pack of neighboring states in terms of 2008 total spending per capita. Direct expenditures, over which the legislature has the greatest amount of control, jumped 37 percent, about the same as the aggregate spending increase for all states (38 percent), but greater than the increase of most neighboring states (excepting Kansas's 42 percent increase and Wyoming's 71 percent increase).

Direct Expenditures, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**4,399,105**	**6,042,455**	**37%**	**25**	**3,389**	**28**
Colorado	10,500,583	13,108,348	25%	45	2,654	48
Iowa	8,109,027	10,687,341	32%	36	3,559	24
Kansas	6,645,909	9,431,027	42%	19	3,366	30
Missouri	13,634,499	17,982,716	32%	34	3,042	42
South Dakota	2,047,865	2,720,277	33%	33	3,383	29
Wyoming	1,634,332	2,795,276	71%	3	5,244	6
U.S. Total	**745,821,802**	**1,026,041,465**	**38%**		**3,374**	

Drilling down deeper into the state's spending, between 2002 and 2008, Nebraska increased spending the most in the hospitals (40 percent), education (33 percent), and corrections (28 percent) categories. The state was remarkably successful at keeping down its debt service costs, however. Interest on debt spending dropped 2 percent during the period and ranked 48th per capita in 2008, lower than all surrounding states. Spending also declined in one other category during the period: parks and recreation (-10 percent).

There are a number of budget reforms Nebraska should implement in order to address its budget crunch going forward. They include:

- Adopting an effective state spending/revenue limit,
- Employing a Budgeting for Outcomes budgeting process in order to increase efficiency and the transparency of budget priority trade-off decisions,
- Adopting a sunset review process for state agencies, boards, and commissions,
- Utilizing non-partisan revenue forecasts and an independent certification of the budget,
- Creating a statewide real property inventory and mining the balance sheet for asset sale and lease opportunities,
- Expanding the use of privatization and competitive contracting,
- Establishing a State Privatization and Efficiency Council to better manage privatization and government efficiency initiatives,
- Implementing public-private partnerships to finance transportation infrastructure,
- Enacting school empowerment and student-based budgeting reforms, and
- Reinventing Nebraska's higher education system by providing higher education grants directly to students and embracing privatization and public-private partnerships for the financing, construction, operation, and/or maintenance of university services and assets.

By learning the lesson of greater fiscal discipline and implementing the above reforms, Nebraska can keep us on the path of fiscal responsibility. This will lead to a quicker economic recovery and a better quality of life for Nebraska's citizens.

Table of Contents

I. Introduction and Methodology
II. Revenue
  A. Total Revenue
  B. Taxes
    i. Total Tax Revenue
    ii. Individual Income Taxes
    iii. General Sales Taxes
    iv. Corporate Income Taxes
III. Spending
  A. Total Expenditures
  B. General Expenditures
  C. Direct Expenditures
  D. Spending by Major Categories
    i. Corrections
    ii. Education
    iii. Government Administration
    iv. Health
    v. Highways
    vi. Hospitals
    vii. Interest on Debt
    viii. Natural Resources
    ix. Parks and Recreation
    x. Police Protection
    xi. Public Welfare
    xii. Salaries and Wages
IV. Ten Reforms to Streamline Nebraska State Government
  1. Adopt an Effective State Spending/Revenue Limit
  2. Employ a Budgeting for Outcomes Budgeting Process
  3. Adopt a Sunset Review Process for State Agencies, Boards, and Commissions
  4. Utilize Non-Partisan Revenue Forecasts and an Independent Certification of the Budget
  5. Create a Statewide Real Property Inventory and Take Advantage of Asset Sale and Lease Opportunities
  6. Expand the Use of Privatization and Competitive Contracting
  7. Establish a State Privatization and Efficiency Council
  8. Implement Public-Private Partnerships to Finance Transportation Infrastructure
  9. Enact School Empowerment and Student-Based Budgeting Reforms
  10. Reinvent Nebraska's Higher Education System
V. Conclusions
VI. Appendix A – Nebraska Spending and Revenue Summary, 2002-2008
VII. About the Authors
VIII. Endnotes

I. Introduction and Methodology

Nebraska, like many states, is facing a significant fiscal crunch in the face of the recession and ongoing economic downturn. Its budget deficit is estimated at $679 million—about 10 percent of the two-year budget. The state received a temporary reprieve this year from Washington, D.C.—and taxpayers from across the nation—in the form of $250.6 million in federal stimulus funds, which were primarily used to help pay Medicaid and state public education costs. But that money will not be available next year. Legislative leaders have indicated that they intend to make up the difference through spending cuts, and not tax or fee increases.[1]

The purpose of this paper is twofold: first, to look back over recent years to determine where the state's money came from and where it went, and second, to offer a number of budget reform recommendations to help Nebraska balance the state budget while maintaining quality-of-life priorities for its citizens. The first sections draw upon U.S. Census Bureau data to compare Nebraska's revenue and spending in various categories to national aggregate rates and those of Nebraska's six bordering states: Colorado, Iowa, Kansas, Missouri, South Dakota, and Wyoming. The spending data analyzed include total spending, general spending, and the following expenditure subcategories:

- Corrections
- Education
- Government Administration
- Health
- Highways
- Hospitals
- Interest on Debt
- Natural Resources
- Parks and Recreation
- Police Protection
- Public Welfare
- Salaries and Wages

The revenue data analyzed include total revenue, total tax revenue, and the following tax revenue subcategories:

- Individual Income Tax
- General Sales Tax
- Corporate Income Tax

The data covers the period from 2002 to 2008 (the most recent Census data available). Appendix A summarizes the differences in Nebraska's spending and revenue in the above categories from 2002 to 2008, as well as the state's national per capita rankings for each of the categories for 2002 and 2008.

The latter section of the paper draws upon research and case studies from state and local governments around the country to offer practical solutions to maximize the efficiency and quality of Nebraska's government services while minimizing its costs.

II. Revenue

States across the nation are struggling with revenue declines as a result of the recession that, according to the National Bureau of Economic Research, officially began in December 2007,[2] and which intensified with the financial/credit crisis beginning in September 2008. Yet, state revenues experienced significant increases before the recession. If that money had been better managed and states had not spent beyond their means as if the boom period would never end, there would not be a need for such dramatic adjustments to make ends meet today.

For the purposes of this paper, we will be focusing the revenue analysis on total tax revenue and the three largest tax revenue subcategories: personal income tax, general sales tax, and corporate income tax.

A. Total Revenue

The top-line number of state resources is total revenue. It reflects every dollar available to state governments. Total revenue includes state revenue from all sources, including taxes (individual income taxes, general sales taxes, corporate income taxes, selective sales taxes, license taxes, and other taxes), funds from the federal government, current charges (charges imposed for providing current services or for the sale of products in connection with general government activities), miscellaneous general revenue, and any utility, liquor store, and insurance trust revenue. The state's total revenue rose from $6.0 billion in 2002 to $8.4 billion in 2008, an increase of 40 percent. This increase was a little below the rate of total revenue growth for the aggregate of all states in the nation (48 percent), and on par with the increases in Kansas (40 percent) and Missouri (43 percent), ranking in the middle of Nebraska's neighboring states. The state's 2008 total revenue per capita rank (35th) also placed it in the middle of surrounding states, with Wyoming (2nd) and South Dakota (50th) representing outliers (see Table 1).

Table 1: Total Revenue, 2002-2008

State	2002 Revenues (Thousands of Dollars)	2008 Revenues (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Revenues	2008 Per Capita Rank
Nebraska	**6,001,930**	**8,387,599**	**40%**	**33**	**4,704**	**35**
Colorado	12,478,045	26,521,512	113%	3	5,370	25
Iowa	11,130,351	15,939,920	43%	27	5,308	26
Kansas	9,694,312	13,541,510	40%	34	4,833	32
Missouri	19,085,356	25,243,465	32%	42	4,270	42
South Dakota	2,500,028	2,910,381	16%	48	3,620	50
Wyoming	2,769,606	6,481,408	134%	2	12,160	2
U.S. Total	**1,097,045,283**	**1,619,325,776**	**48%**		**5,326**	

B. Taxes

The tax revenue categories analyzed in this section consist of the three largest tax subcategories: individual (or "personal") income taxes, general sales taxes, and corporate income taxes. It is important to note that comparisons of revenues across tax categories are somewhat difficult because some states do not impose taxes on personal income, general sales, and/or corporate income. For example, among Nebraska's neighboring states, South Dakota does not have a personal income tax and Wyoming does not have a personal income tax or a corporate income tax. This means that their other tax revenues will be skewed higher on a per capita basis, and increases in revenue growth will tend to be higher as well, since they rely more heavily on these other tax categories for revenue.

Total Tax Revenue

The state's total tax revenue rose from $3.0 billion in 2002 to $4.2 billion in 2008, an increase of 41 percent. This was slightly below the aggregate increase for all states (46 percent), and was greater than the increase in all neighboring states except Wyoming (98 percent, the third-largest increase in the nation) and Kansas (49 percent). Nebraska's 2008 total tax revenue per capita was 29th-highest, also placing above all surrounding states except for Wyoming (3rd) and Kansas (22nd) (see Table 2).

Table 2: Total Tax Revenue, 2002-2008

State	2002 Revenues (Thousands of Dollars)	2008 Revenues (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Revenues	2008 Per Capita Rank
Nebraska	**2,992,522**	**4,228,800**	**41%**	**31**	**2,372**	**29**
Colorado	6,923,171	9,624,636	39%	36	1,949	41
Iowa	5,006,251	6,892,026	38%	39	2,295	37
Kansas	4,808,361	7,159,748	49%	17	2,555	22
Missouri	8,728,932	10,965,171	26%	48	1,855	47
South Dakota	976,596	1,321,368	35%	41	1,643	50
Wyoming	1,094,402	2,168,016	98%	3	4,068	3
U.S. Total	**535,191,161**	**780,689,445**	**46%**		**2,568**	

Individual Income Taxes

As with the nation as a whole, the individual income tax is the largest tax revenue category in Nebraska, comprising about 41 percent of total tax revenue in 2008. The state's personal income tax revenue rose from $1.2 billion in 2002 to $1.7 billion in 2008, an increase of 50 percent. This was the same as the revenue growth rate for all states and fell in the middle of the rates of

surrounding states that impose a personal income tax. While Nebraska's 2008 personal income tax revenues per capita placed in the top half of all states (19th), so did those of all surrounding states, and Nebraska's rank placed in the middle of those surrounding states. South Dakota and Wyoming did not collect a personal income tax (see Table 3).

Table 3: Individual Income Tax Revenue, 2002-2008

State	2002 Revenues (Thousands of Dollars)	2008 Revenues (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Revenues	2008 Per Capita Rank (of 43)*
Nebraska	**1,153,444**	**1,726,145**	**50%**	**22**	**968**	**19**
Colorado	3,475,760	5,067,981	46%	25	1,026	17
Iowa	1,769,347	2,848,393	61%	11	949	20
Kansas	1,854,848	2,944,851	59%	13	1,051	15
Missouri	3,615,391	5,118,849	42%	29	866	25
South Dakota	0	0	N/A	N/A	0	N/A
Wyoming	0	0	N/A	N/A	0	N/A
U.S. Total	**185,646,573**	**278,230,889**	**50%**		**915**	

* Per capita rankings are out of 43 since seven states do not collect personal income taxes.

General Sales Taxes

The general sales tax is the second-biggest component of state tax revenue category in Nebraska, making up approximately 36 percent of total tax revenue in 2008. The state's general sales tax revenue rose from $1.1 billion in 2002 to $1.5 billion in 2008, an increase of 43 percent. This revenue growth rate was higher than the growth rate for all states (34 percent), and was higher than that of every surrounding state except Wyoming (67 percent). Nebraska's 2008 general sales tax per capita was the 19th highest in the nation, higher than all surrounding states except Wyoming (3rd), which did not collect a personal income tax or a corporate income tax, and South Dakota (12th), which did not collect a personal income tax (see Table 4).

Table 4: General Sales Tax Revenue, 2002-2008

State	2002 Revenues (Thousands of Dollars)	2008 Revenues (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Revenues	2008 Per Capita Rank (of 45)*
Nebraska	**1,069,185**	**1,534,134**	**43%**	**17**	**860**	**19**
Colorado	1,901,972	2,312,731	22%	34	468	45
Iowa	1,747,016	1,840,862	5%	44	613	35
Kansas	1,799,485	2,264,747	26%	30	808	23
Missouri	2,854,718	3,228,274	13%	41	546	41
South Dakota	523,001	732,438	40%	19	911	12
Wyoming	445,479	744,371	67%	2	1,397	3
U.S. Total	**179,665,257**	**240,415,097**	**34%**		**791**	

* Per capita rankings are out of 45 since five states do not collect general sales taxes.

Corporate Income Taxes

The corporate income tax constituted about 5.5 percent of Nebraska's total tax revenue in 2008. Corporate income taxes saw the largest increase in revenue of any tax category nationwide, and the situation was no different for Nebraska. The state's corporate income tax revenue rose from $107.6 million in 2002 to $232.9 million in 2008, an increase of 116 percent. This revenue growth rate was a bit higher than the growth rate for all states (102 percent), and placed in the middle of the surrounding states that impose a corporate income tax. Nebraska's 2008 corporate income tax per capita was the 28th highest in the nation, also ranking in the middle of those of neighboring states. Wyoming did not collect a corporate income tax (see Table 5).

Table 5: Corporate Income Tax Revenue, 2002-2008

State	2002 Revenues (Thousands of Dollars)	2008 Revenues (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Revenues	2008 Per Capita Rank (of 46)*
Nebraska	**107,628**	**232,852**	**116%**	**24**	**131**	**28**
Colorado	205,217	507,986	148%	14	103	38
Iowa	88,310	347,248	293%	3	116	36
Kansas	121,931	528,011	333%	2	188	12
Missouri	300,459	384,010	28%	43	65	46
South Dakota	40,547	69,879	72%	38	87	42
Wyoming	0	0	N/A	N/A	0	N/A
U.S. Total	**25,123,137**	**50,688,869**	**102%**		**167**	

* Per capita rankings are out of 46 since four states do not collect corporate income taxes.

III. Spending

There are various ways to look at state spending. *Total expenditures* encompass every dollar spent by state government, irrespective of its source. Excluding spending on state liquor stores (in states where these still exist), utilities, and many social insurance programs, including state employee retirement benefits, gives us *general expenditures*. This number also includes monies states receive from the federal government to support a variety of programs from highway construction to Medicaid. Excluding money from the federal government gives us *direct expenditures*, which encompass current operations, interest on debt, assistance and subsidies, and capital outlays, among others. *Direct expenditures* is the category most in the control of the legislature, while *general expenditures* gives us a fuller picture of state spending. This is particularly true given the increasing role the federal government is taking in state budgets through the offer of federal funds to implement national programs (and the accompanying federal strings that come with that money).

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002-2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20 percent and Nebraska's population increased by three percent. This yields a "baseline" growth of 23 percent for the period, which should be kept in mind when analyzing the state's expenditure and revenue growth. (See Appendix A for a comparison of state spending and revenue categories to this baseline.)

A. Total Expenditures

The state's total expenditures rose from $6.5 billion in 2002 to $8.4 billion in 2008, an increase of 29 percent. This was slightly below the aggregate increase of all states (35 percent) and on par with most of its surrounding states, including Missouri (29 percent), Iowa (30 percent), Colorado (32 percent), and South Dakota (33 percent). Nebraska's total spending per capita in 2008 ranked only 41st in the nation, although this was higher than half of its neighboring states, including Colorado (43rd), South Dakota (44th), and Missouri (45th). Wyoming was an outlier, as its total spending increase (72 percent) and 2008 total spending per capita were both the second-highest in the nation (see Table 6).

Table 6: Total Expenditures, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**6,536,970**	**8,443,129**	**29%**	**41**	**4,735**	**41**
Colorado	17,324,984	22,856,848	32%	33	4,628	43
Iowa	12,720,752	16,522,737	30%	40	5,502	29
Kansas	10,591,633	14,968,811	41%	18	5,342	32
Missouri	20,840,783	26,788,804	29%	43	4,531	45
South Dakota	2,771,705	3,698,335	33%	29	4,600	44
Wyoming	2,948,182	5,081,586	72%	2	9,534	2
U.S. Total	**1,282,852,187**	**1,735,949,390**	**35%**		**5,709**	

B. General Expenditures

The state's general expenditures rose from $6.2 billion in 2002 to $8.0 billion in 2008, an increase of 29 percent. This was slightly below the aggregate increase of all states (35 percent) and on par with most of its surrounding states, including Missouri (26 percent), Iowa (30 percent), Colorado (31 percent), and South Dakota (33 percent). Nebraska's total spending per capita in 2008 ranked 37th in the nation, although this was higher than half of its neighboring states, including South Dakota (42nd), Missouri (44th), and Colorado (46th). Wyoming was an outlier, as its general spending increase (75 percent) and 2008 general spending per capita were both the second-highest in the nation (see Table 7).

Table 7: General Expenditures, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**6,219,242**	**8,024,395**	**29%**	**38**	**4,501**	**37**
Colorado	14,795,822	19,341,732	31%	36	3,916	46
Iowa	11,435,526	14,830,301	30%	37	4,938	27
Kansas	9,617,322	13,645,502	42%	19	4,870	29
Missouri	18,707,684	23,621,358	26%	46	3,995	44
South Dakota	2,554,212	3,400,145	33%	31	4,229	42
Wyoming	2,608,940	4,564,285	75%	2	8,563	2
U.S. Total	**1,110,668,889**	**1,504,529,418**	**35%**		**4,948**	

C. Direct Expenditures

The state's direct expenditures rose from $4.4 billion in 2002 to $6.0 billion in 2008, an increase of 37 percent. This is virtually the same as the aggregate spending increase for all states (38 percent), but greater than the increase of most neighboring states (excepting Kansas's 42 percent increase and Wyoming's 71 percent increase, the third-largest increase in the nation for the period). Nebraska's direct expenditures per capita in 2008 were roughly the same as the aggregate for all states. It was also about the same as neighboring states Kansas ($3,366) and South Dakota ($3,383), and placed in the middle of all surrounding states (see Table 8).

Table 8: Direct Expenditures, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**4,399,105**	**6,042,455**	**37%**	**25**	**3,389**	**28**
Colorado	10,500,583	13,108,348	25%	45	2,654	48
Iowa	8,109,027	10,687,341	32%	36	3,559	24
Kansas	6,645,909	9,431,027	42%	19	3,366	30
Missouri	13,634,499	17,982,716	32%	34	3,042	42
South Dakota	2,047,865	2,720,277	33%	33	3,383	29
Wyoming	1,634,332	2,795,276	71%	3	5,244	6
U.S. Total	**745,821,802**	**1,026,041,465**	**38%**		**3,374**	

D. Spending By Major Categories

We analyzed state spending in 12 separate categories, including corrections, education, government administration, health, highways, hospitals, interest on debt, natural resources, parks and recreation, police protection, public welfare, and salaries and wages. The U.S. Census Bureau definitions of these categories do not perfectly match up with the definitions of state-level groups like the National Governors Association or the National Association of State Budget Officers, but they provide a consistent universe of actual spending.

Between 2002 and 2008, Nebraska saw the greatest spending increases in hospitals (40 percent), education (33 percent), and corrections (28 percent). The state reduced spending in two categories: interest on debt (-2 percent) and parks and recreation (-10 percent) (see Table 9).

Table 9: Rate of State Spending Growth by Spending Category, 2002-2008

Category	Rate of Spending Growth
Hospitals	+40%
Education	+33%
Corrections	+28%
Police Protection	+27%
Public Welfare	+26%
Government Administration	+24%
Highways	+20%
Health	+14%
Salaries and Wages	+13%
Natural Resources	+9%
Interest on Debt	-2%
Parks and Recreation	-10%

Corrections

The state's spending on its correctional system rose from $176.5 million in 2002 to $219.3 million in 2008, an increase of 28 percent. This was same rate as the spending increases for all states, and put Nebraska on the lower end compared to its surrounding states. As of 2008, its per capita spending on corrections remained on the lower end, compared to surrounding states, as well (see Table 10).

Table 10: Corrections Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**176,533**	**219,278**	**28%**	**33**	**123**	**40**
Colorado	734,457	996,266	36%	21	202	8
Iowa	288,666	291,406	1%	49	97	47
Kansas	326,372	361,648	11%	46	129	34
Missouri	619,674	754,740	22%	36	128	35
South Dakota	74,880	110,268	47%	10	137	32
Wyoming	83,268	164,617	98%	1	309	3
U.S. Total	**38,875,374**	**49,897,531**	**28%**		**164**	

Education

Education is the single largest state spending category. The state's spending on education rose from $2.2 billion in 2002 to $2.9 billion in 2008, an increase of 33 percent. This spending growth rate was the second-greatest increase of all the spending categories. Besides Wyoming, which saw the largest increase in education spending in the country during the period (78 percent) and had the third-highest education spending per capita in 2008, Nebraska's growth rate and per capita spending rank put it in the middle of those of surrounding states (see Table 11).

Table 11: Education Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**2,191,323**	**2,909,668**	**33%**	**40**	**1,632**	**38**
Colorado	5,798,172	7,985,963	38%	33	1,617	40
Iowa	4,576,530	5,790,799	27%	46	1,928	22
Kansas	3,987,803	5,750,358	44%	20	2,052	15
Missouri	6,717,220	8,604,958	28%	44	1,456	45
South Dakota	798,769	1,103,636	38%	32	1,373	47
Wyoming	865,530	1,537,792	78%	1	2,885	3
U.S. Total	**389,407,676**	**546,825,678**	**40%**		**1,798**	

Government Administration

The state's spending on government administration rose from $164.8 million in 2002 to $204.9 million in 2008, an increase of 24 percent. There was a wide variance in the spending growth rates of the surrounding states, as Colorado and Wyoming at least doubled their administration spending during the period while Kansas and Missouri actually cut their spending in this category. Nebraska's rate of spending growth was a little below the increase for all states (31 percent), and its spending per capita rank was the lowest of the surrounding states. It should be noted that some of the costs of running government are likely buried within specific categories, although the extent of this is unknowable. However, it is likely that the proportion of costs which may fall within specific categories is roughly equal across the states (see Table 12).

Table 12: Government Administration Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**164,848**	**204,921**	**24%**	**31**	**115**	**43**
Colorado	422,050	869,746	106%	1	176	29
Iowa	497,392	554,993	12%	41	185	27
Kansas	502,328	459,166	-9%	48	164	31
Missouri	547,846	541,561	-1%	43		
South Dakota	103,417	169,363	64%	7	211	22
Wyoming	100,346	200,990	100%	2	377	4
U.S. Total	**41,065,153**	**53,698,587**	**31%**		**177**	

Health

The state's spending on health rose from $363.7 million in 2002 to $415.2 million in 2008, an increase of 14 percent. There was a wide variance in the spending growth rates of the surrounding states, as Wyoming and Missouri had the highest and second-highest increases in the country (148 percent and 139 percent, respectively) and Kansas had the second-lowest, cutting its health spending by 50 percent during the period. Nebraska's rate of spending growth was a little below the increase for all states (21 percent). As of 2008, its health spending was the 16th-highest per capita, tying it with natural resources spending (see below) for its second-highest ranking of all the spending categories, behind only salaries and wages (8th—see below) (see Table 13).

Table 13: Health Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**363,668**	**415,172**	**14%**	**36**	**233**	**16**
Colorado	792,620	809,170	2%	41	164	27
Iowa	233,740	240,951	3%	40	80	50
Kansas	503,625	252,179	-50%	49	90	48
Missouri	485,805	1,163,167	139%	2	197	20
South Dakota	81,294	126,093	55%	12	157	28
Wyoming	113,368	281,247	148%	1	528	1
U.S. Total	**50,549,676**	**60,957,320**	**21%**		**200**	

Highways

This category includes only state own-source funds and does not reflect federal spending on highways. The state's spending on highways rose from $526.5 million in 2002 to $631.0 million in 2008, an increase of 20 percent. This spending increase was higher than all surrounding states except Wyoming (46 percent). As of 2008, its spending per capita ranked 28th-highest, putting it in the middle of those of the surrounding states (see Table 14).

Table 14: Highways Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**526,457**	**631,028**	**20%**	**26**	**354**	**27**
Colorado	1,421,381	1,281,596	-10%	46	259	44
Iowa	1,360,300	1,381,730	2%	42	460	12
Kansas	1,130,728	1,213,980	7%	36	433	18
Missouri	1,871,062	2,034,235	9%	35	344	31
South Dakota	420,346	429,629	2%	40	534	7
Wyoming	356,733	521,164	46%	10	978	2
U.S. Total	**84,068,470**	**107,190,485**	**28%**		**353**	

Hospitals

This category generally provides for the management, construction, and upkeep of government-owned hospitals, chiefly those run by public universities. The state's spending on hospitals rose from $171.2 million in 2002 to $239.3 million in 2008, an increase of 40 percent. This was Nebraska's highest spending increase of any category. There was a wide variance in the spending growth rates of the surrounding states, as Kansas experienced by far the highest growth rate in the nation (833 percent) and Wyoming had the lowest (-50 percent). Nebraska's growth rate was just about the same as the increase for all states (43 percent), and its 2008 per capita ranking (26th) put it in the middle of those of the remaining surrounding states (see Table 15).

Table 15: Hospitals Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**171,234**	**239,294**	**40%**	**25**	**134**	**26**
Colorado	253,652	437,822	73%	12	89	29
Iowa	724,555	1,092,682	51%	20	364	7
Kansas	104,270	973,004	833%	1	347	8
Missouri	888,708	1,322,145	49%	21	224	20
South Dakota	44,001	60,769	38%	26	76	34
Wyoming	25,465	2,384	-91%	50	4	50
U.S. Total	**37,500,128**	**53,682,058**	**43%**		**177**	

Interest on Debt

Nebraska kept its debt service costs remarkably well in check during the period. The state's spending on interest on debt declined from $109.8 million in 2002 to $108.0 million in 2008, a decrease of 2 percent. This was the only spending category besides parks and recreation (see below) to see a reduction in spending. The only surrounding state to also see a decline in its debt service spending was Wyoming (-14 percent), while Iowa, Kansas, and Colorado had some of the largest spending increases in the nation (218 percent, 164 percent, and 135 percent, respectively). As of 2008, Nebraska's interest on debt spending per capita ranked 48th, lower than all of the surrounding states (see Table 16).

Table 16: Interest on Debt Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**109,795**	**107,999**	**-2%**	**47**	**61**	**48**
Colorado	352,320	827,293	135%	5	168	21
Iowa	123,134	391,988	218%	1	131	29
Kansas	126,813	334,469	164%	3	119	32
Missouri	567,965	1,045,801	84%	9	177	19
South Dakota	120,082	136,008	13%	37	169	20
Wyoming	72,324	61,973	-14%	50	116	35
U.S. Total	**31,407,303**	**44,755,353**	**42%**		**147**	

Natural Resources

Broadly speaking, "natural resources" covers state spending on land, forestry, and rivers management. It also covers the costs of enforcing environmental and land use laws and regulations. The state's spending on natural resources rose from $165.3 million in 2002 to $181.0 million in 2008, an increase of 9 percent. This spending increase was about the same as that of Iowa (8 percent), and lower than those of other surrounding states, for the period. Wyoming saw the second-largest increase in the country (94 percent), and its 2008 spending per capita was the highest in the nation. Nebraska's per capita spending ranked 16th, tied with health spending (see above) for its second-highest ranking of all spending categories, behind only salaries and wages (8th—see below). This ranked behind Wyoming and South Dakota (1st and 5th, respectively), but higher than all other surrounding states (see Table 17).

Table 17: Natural Resources Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**165,308**	**180,968**	**9%**	**35**	**101**	**16**
Colorado	193,235	323,226	67%	4	96	21
Iowa	267,444	288,799	8%	36	65	33
Kansas	179,368	205,394	15%	32	73	28
Missouri	293,627	347,965	19%	26	59	35
South Dakota	98,029	123,365	26%	22	153	5
Wyoming	159,625	310,037	94%	2	582	1
U.S. Total	**17,821,117**	**22,522,407**	**26%**		**74**	

Parks and Recreation

The state's spending on parks and recreation declined from $32.2 million in 2002 to $28.9 million in 2008, a decrease of 10 percent. This was the only spending category besides interest on debt (see above) to see a reduction in spending. The only surrounding state to see a decline in its parks and recreation spending was Missouri (-27 percent), while the 585 percent increase in spending by Kansas was the highest in the nation. As of 2008, Nebraska's spending per capita rank of 34th placed in the middle of surrounding states (see Table 18).

Table 18: Parks and Recreation Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**32,191**	**28,868**	**-10%**	**39**	**16**	**34**
Colorado	69,307	79,099	14%	27	16	35
Iowa	25,468	61,112	140%	4	20	29
Kansas	5,416	37,074	585%	1	13	38
Missouri	50,672	37,236	-27%	42	6	49
South Dakota	26,193	42,124	61%	17	52	6
Wyoming	21,640	34,369	59%	19	64	2
U.S. Total	**6,83,538**	**6,396,814**	**3%**		**21**	

Police Protection

The state's spending on police protection rose from $66.8 million in 2002 to $84.7 million in 2008, and increase of 27 percent. There was a wide variance in the growth rates of the surrounding states, as Kansas experienced the fourth-largest increase in the country (74 percent) and Wyoming had the lowest (-38 percent). Nebraska's spending growth rate puts it in the middle of those of other surrounding states for the period. Its 2008 spending per capita rank of 19th was significantly higher than those of all surrounding states, however. It bears noting that the period 2002-2008 showed a general reduction in the rate of crime (see Table 19).

Table 19: Police Protection Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**66,750**	**84,698**	**27%**	**27**	**48**	**19**
Colorado	103,053	140,723	37%	22	28	45
Iowa	86,461	96,991	12%	36	32	41
Kansas	63,403	110,231	74%	4	39	32
Missouri	211,894	214,579	1%	47	36	35
South Dakota	22,400	31,514	41%	19	39	34
Wyoming	25,386	15,862	-38%	50	30	42
U.S. Total	**10,705,936**	**13,594,279**	**27%**		**45**	

Public Welfare

Public welfare is the second-largest state spending category (in a virtual tie with salaries and wages—see below), behind only education. While this category covers a range of spending, Medicaid and nursing home care accounts for the overwhelming majority of welfare spending in most states. The state's spending on public welfare rose from $1.7 billion in 2002 to $2.1 billion in 2008, an increase of 26 percent. This spending increase was below those of all surrounding states except Missouri (13 percent), although Nebraska's 2008 spending per capita rank (33rd) was still higher than those of most of the surrounding states (see Table 20).

Table 20: Public Welfare Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**1,661,269**	**2,099,052**	**26%**	**39**	**1,177**	**33**
Colorado	3,131,520	4,557,057	46%	24	923	47
Iowa	2,617,128	3,904,781	49%	22	1,300	24
Kansas	1,986,407	3,167,907	59%	12	1,131	38
Missouri	5,496,624	6,231,774	13%	48	1,054	40
South Dakota	592,754	811,709	37%	31	1,010	41
Wyoming	374,206	656,176	75%	7	1,231	28
U.S. Total	**288,593,877**	**412,141,472**	**43%**		**1,355**	

Salaries and Wages

Salaries and wages is the third-largest state spending category, trailing only education and public welfare spending (with which spending is virtually the same—see above). The state's spending on salaries and wages rose from $1.8 billion in 2002 to $2.1 billion in 2008, an increase of 13 percent. There was a wide variance in the spending growth rates of the surrounding states, as Kansas and South Dakota experienced a couple of the highest growth rates in the nation (99 percent and 89 percent, respectively) while Iowa had the second-lowest (-4 percent). As of 2008, Nebraska's spending per capita was 8th-highest in the nation, its highest rank for any spending category and higher than those of all surrounding states. It is particularly interesting that salaries and wages spending per capita is so high considering that the state's government administration spending per capita ranked very low (43rd—see above) (see Table 21).

Table 21: Salaries and Wages Spending, 2002-2008

State	2002 Spending (Thousands of Dollars)	2008 Spending (Thousands of Dollars)	2002-2008 Difference	2002-2008 Difference Rank	2008 Per Capita Spending	2008 Per Capita Rank
Nebraska	**1,835,657**	**2,076,389**	**13%**	**43**	**1,165**	**8**
Colorado	2,765,058	3,553,624	29%	32	720	35
Iowa	2,402,008	2,301,969	-4%	49	767	30
Kansas	1,598,382	3,174,710	99%	3	1,133	11
Missouri	3,216,297	3,661,593	14%	42	619	41
South Dakota	445,460	843,292	89%	4	1,049	12
Wyoming	439,434	633,251	44%	12	1,188	6
U.S. Total	**167,841,309**	**229,818,658**	**37%**		**756**	

Spending Summary

Table 22 provides a summary of each state's spending increase/decrease in each spending category from 2002 to 2008, and Table 23 offers a summary of each state's 2008 per capita spending in each spending category. The highest and lowest figures for each category have been shaded. While an analysis of the programs on which each state spends its money and a qualitative evaluation of the services provided by each state in each spending category are beyond the scope of this paper, Nebraska should take a closer look at the states that were best able to contain their spending growth in each spending category in order to determine if there are "best practices" that could be borrowed and applied for the benefit of Nebraska citizens and taxpayers.

Table 22: Spending Increase/Decrease Summary, Nebraska and Surrounding States, 2002-2008

	Nebraska	Colorado	Iowa	Kansas	Missouri	South Dakota	Wyoming
Corrections	24%	36%	1%	11%	22%	47%	98%
Education	33%	38%	27%	44%	28%	38%	78%
Government Administration	24%	106%	12%	-9%	-1%	64%	100%
Health	14%	2%	3%	-50%	139%	55%	148%
Highways	20%	-10%	2%	7%	9%	2%	46%
Hospitals	40%	73%	51%	833%	49%	38%	-91%
Interest on Debt	-2%	135%	218%	164%	84%	13%	-14%
Natural Resources	9%	67%	8%	15%	19%	26%	94%
Parks and Recreation	-10%	14%	140%	585%	-27%	61%	59%
Police Protection	27%	37%	12%	74%	1%	41%	-38%
Public Welfare	26%	46%	49%	59%	13%	37%	75%
Salaries and Wages	13%	29%	-4%	99%	14%	89%	44%
Total Spending	29%	32%	30%	41%	29%	33%	72%
General Spending	29%	31%	30%	42%	26%	33%	75%
Direct Spending	37%	25%	32%	42%	32%	33%	71%

Table 23: 2008 Per Capita Spending, Nebraska and Surrounding States

	Nebraska	Colorado	Iowa	Kansas	Missouri	South Dakota	Wyoming
Corrections	$123	$202	$97	$129	$128	$137	$309
Education	$1,632	$1,617	$1,928	$2,052	$1,456	$1,373	$2,885
Government Administration	$115	$176	$185	$164	$92	$211	$377
Health	$233	$164	$80	$90	$197	$157	$528
Highways	$354	$259	$460	$433	$344	$534	$978
Hospitals	$134	$89	$364	$347	$224	$76	$4
Interest on Debt	$61	$168	$131	$119	$177	$169	$116
Natural Resources	$101	$65	$96	$73	$59	$153	$582
Parks and Recreation	$16	$16	$20	$13	$6	$52	$64
Police Protection	$48	$28	$32	$39	$36	$39	$30
Public Welfare	$1,177	$923	$1,300	$1,131	$1,054	$1,010	$1,231
Salaries and Wages	$1,165	$720	$767	$1,133	$619	$1,049	$1,188
Total Spending	$4,735	$4,628	$5,502	$5,342	$4,531	$4,600	$9,534
General Spending	$4,501	$3,916	$4,938	$4,870	$3,995	$4,229	$8,563
Direct Spending	$3,389	$2,654	$3,559	$3,366	$3,042	$3,383	$5,244

IV. Ten Reforms to Streamline Nebraska State Government

Now that we know generally where the money is coming from and where it is going, it is time to take a look at how best to put the state's money to use. Below we outline 10 budget reform recommendations intended to help balance the state budget while maximizing citizens' quality of life.

It is beyond the scope of this paper to explore the myriad of program-level and agency-level reform options to drive cost reductions and efficiency improvements in state government. No function, program, or agency should be considered sacred, and each merits rigorous review and evaluation to determine whether it is achieving its mission, delivering services in a cost-effective manner and, ultimately, whether it merits continuation or not.

Rather, the recommendations that follow focus on implementing systemic, proven reforms designed to drive large, enterprise-wide changes across state government to help keep the costs of government—and the taxpayer burden—in check.

Reform 1: Adopt an Effective State Spending/Revenue Limit

Many states have attempted to curtail spending (or, more accurately, spending growth) with mixed success. In fact, 45 states currently maintain some sort of spending limit, combined with rainy day funds. The effectiveness of the spending restraints and the size of the rainy day funds vary greatly, however.

In Nebraska, the relative lack of strong fiscal controls prompted activists to place the Nebraska Stop Overspending Initiative (Proposition 423) on the November 2006 general election ballot. The initiative would have amended the Nebraska Constitution to cap the rate of future growth of the state government's budget. The initiative was defeated by a 30-70 margin after groups like the National Education Association, Nebraska State Education Association, AARP, League of Nebraska Municipalities, AFSCME, and a variety of other public sector labor unions and interest groups poured more than $2.5 million into the campaign to defeat it. One can only wonder how such a measure would have fared in the vastly different fiscal and economic conditions of 2010, when the state is facing a possible $679 million biennial deficit. Ironically, a 2006 University of Nebraska report on Proposition 423 found that if this limit had been put in place in fiscal year 1996-97, state spending would have been more than $600 million less than actual projected spending a decade later in fiscal year 2006-07. [3]

One of the most successful checks on government spending has been the Taxpayer Bill of Rights (TABOR), adopted by Colorado taxpayers in 1992. Although TABOR is often referred to as a spending limit, it is actually a limit on the revenues the state may collect, and thus serves as a de facto spending limit. TABOR caps the growth in state tax revenues at the combined growth rates of inflation and population. Any amount collected above this limit must be returned to the taxpayers through refunds, temporary tax credits, or any other "reasonable

means." The limit is calculated based on the previous year's allowable revenues or actual revenues, whichever is lower.

The state exceeded the revenue limit for the first time in FY 1997-98 and continued to exceed it in many of the intervening years. Since 1997, Colorado has returned over $3.2 billion to taxpayers, and while other states grappled with their fiscal woes in the 2001-2002 recession, Colorado enjoyed a balanced budget and still managed to issue $927 million in tax refunds.

Increases above the tax revenue limit may only be obtained by approval of the voters in a referendum, giving the system a degree of flexibility. Since TABOR's inception, several such referenda have been offered to the voters. Two such measures to pass include Amendment 23, which required education spending to increase at a certain rate regardless of state revenues, and Referendum A, which directed $44 million from the TABOR surplus toward property tax relief for qualified seniors. Both measures passed in the 2000 election. Amendment 23 was fundamentally incompatible with TABOR's revenue limits, and soon created budget problems.

Despite the fiscal responsibility and economic growth it had helped create, TABOR was blamed for the budget problems by various interests that sought to increase government spending, while the problems fostered by Amendment 23's spending mandates were ignored. Unfortunately, voters chose to side with increased spending over fiscal restraint, and TABOR was temporarily suspended for five years by Referendum C in 2005. If not for Referendum C's suspension of TABOR between 2005 and 2010, it is estimated that taxpayers would have had nearly $3.6 billion returned to them during that period.[4]

TABOR went back into effect at the start of fiscal year 2010-11 on July 1, 2010. However, Referendum C permanently changed the calculation of the TABOR revenue limit such that it can no longer adjust downward when actual revenues are less than the allowable limit. Thus, spending can now only "ratchet up," not down—the revenue limit will no longer be reset in the event of declining state revenues. It is estimated that under the new Referendum C revenue limit, Colorado will keep over $748 million in fiscal year 2010-11 that would have otherwise been refunded under the original TABOR provisions.[5]

In addition to the TABOR revenue limit, Colorado also has a spending limit. The Arveschoug-Bird limit, put in place in 1991, restricts General Fund appropriations growth to 6 percent per year. Exceptions are made for federal mandates, court orders, Medicaid overexpenditures, and transfers to the state's Capital Construction Fund. According to State Treasurer Mike Coffman, "if the state collects tax revenues that exceed the Arveschoug-Bird limit but that are less than the total TABOR revenue limit … that money is normally spent on transportation and capital construction projects."

Although the "6 percent limit" was merely a statute, a specific provision of TABOR prohibits the state (and local governments) from weakening any spending limitations that existed at the time of TABOR's inception, including Arveschoug-Bird. Thus, the 6 percent limit has become "constitutionalized."

Overall, TABOR has had a strong and positive impact on the Colorado economy. In the words of University of Colorado economics professor Dr. Barry Poulson, "Colorado has achieved unprecedented growth over the past decade due to a favorable business climate."[6] By helping to keeping tax rates low and stable, TABOR has allowed taxpayers and business owners to invest more of their earnings into the economy, spurring further growth. Colorado's favorable business climate and economic growth are evidenced by the following:

- Colorado's 60 percent growth in per capita disposable income growth during the 1990s ranked first among all states.
- During this period, Colorado's population grew an average of 2.3 percent per year—the third-highest growth rate in the country. The number of full-time jobs increased 43 percent, from 1,655,000 jobs in 1990 to 2,363,000 jobs in 2000. What is more, most of the jobs created during the economic expansion were not for low-skilled work, but rather for relatively high-paying positions.
- Between 1995 and 2000, Colorado's 51 percent growth in gross state product was the second-fastest in the nation.

In addition, TABOR made the budgeting process more transparent. This allows taxpayers to become more informed and have a stronger and more direct say as to what their tax dollars are buying. If taxpayers feel legislators are not adequately funding a program that truly needs funding, they can agree to set aside a special allotment for that purpose through the referendum process.

Since, under the TABOR system, any funds for such a program would be taken from revenues collected over the limit—revenues that would otherwise be returned to the taxpayers—taxpayers can make the funding priority decisions that legislators are unable, or unwilling, to make. The crucial point is that, under TABOR, excess tax collections are rightly recognized as property of the taxpayers, not the legislators. This implies that, when deciding whether or not spending (and thus, taxes) should be increased to pay for programs not covered under the TABOR limits, Colorado taxpayers can more easily factor in the costs of programs, and not simply focus on the benefits heralded by legislators or special interest groups, since the money to pay for such programs will be coming from their own tax refunds. Without such a check on the power of the purse, taxpayers might just as well kiss their tax dollars goodbye, knowing that they will all be spent, regardless of whether or not the state collected too much money in the first place.

Despite its many attractive features, however, TABOR is not flawless. The main drawback is that Colorado lacks an effective "rainy-day fund" to resort to in times of economic hardship. While the state does maintain very limited emergency reserve funds, "it does not currently have a device in place to smooth government revenues and expenditures over the business cycle," according to Dr. Poulson. This is not so much a criticism of TABOR itself as it is the tax collection system as a whole, but it deserves comment nonetheless.

TABOR may be able to limit the amount that the state can collect (and spend), but it cannot prevent legislators from spending the maximum amount of tax dollars from the General Fund and dipping into reserves not subject to the TABOR limit. Thus, while the pot may be smaller to begin with, lack of fiscal discipline will still cause it to be depleted, leaving little or nothing in reserve for use in the event of an emergency. Indeed, this has proven to be the case in Colorado. In the words of former Colorado State Treasurer Mike Coffman, "The problem is a legislature that spends to its legal limits in good times and is reluctant to set aside any of that money for the tough ones. What we need to do is ensure a balance that restrains government growth in prosperous times and permits the state to meet the needs of its citizens when times get tough."[7]

In addition to the lack of a rainy-day fund, TABOR has been weakened by the practice of prespending the surplus. In 1998, legislation passed that allowed the state to recognize the TABOR surplus obligation in the year after the money is realized instead of in the year in which revenue comes in the door. Thus, the surplus is treated as an asset in the year it occurs and a liability the subsequent year. According to the Colorado Office of State Planning and Budgeting:

> *Beginning in 1998, the state did not restrict the TABOR surplus revenue in the year it occurred. Rather the legislature, through House Bill 98-1414, obligated the TABOR refund from the next year's revenues. This pre-spending of the TABOR revenues in FY 1998-99 allowed $468.3 million in spending for capital construction and highways. If the TABOR surplus had been restricted in the year it was realized, only $287 million would have been available for capital and highway expenditures in FY 1998-99.* [8]

This raises a potential cash flow problem if the TABOR surplus is less than that of the preceding year or if an economic downturn causes revenues to come in under projections. In addition, permanent tax relief in the full amount of the surplus is now much more difficult, as the prior year's TABOR surplus must be incurred in the current year. If a similar measure is to be employed in Nebraska, efforts must be made to avoid these dilutive effects and accounting gimmicks.

Limitations on revenues and/or spending would serve to prevent budget crises like the current one not only by enforcing fiscal discipline, but by fostering economic growth as well. Measures like TABOR create a favorable business climate by keeping tax burdens low, thus drawing increased investment to the state and encouraging small business and job growth. This incentive is a crucial prerequisite to a thriving economy.

In light of this, Nebraska should adopt the following:

- ***TABOR Revenue Limit***: Nebraska needs a revenue limit to impose discipline on spending, as well as on taxes.
- ***Tax Rebate/Revenue Reserve Fund***: Critics of TABOR point out that should the state

spend exactly to the revenue limit each year, it might be possible that a year of falling revenue would produce a deficit. As a result, a TABOR measure should be designed to keep a running balance of up to 30 percent of the revenue over-collection accumulated during the previous five-year cycle. As a result, a maximum of 70 percent of over-collected revenues could be automatically rebated to the taxpayer, while provisions would be made for the retention of over-collections to meet the 30 percent reserve.

- ***Strong Spending Limit, with Spending Ratchet***: Nebraska needs to adopt a strong spending limit and a spending ratchet formula for setting the spending limit each year. A spending ratchet technique focuses on actual spending instead of prior spending limits by re-setting the base year at the previous year's spending level. Thus, spending limits can be reduced and, once reduced, must grow from the lower base level.
- ***"Balanced Budget Trigger"***: Nebraska should adopt a mid-year Automatic Spending Reconciliation—thus providing another way to correct for any intentional or accidental inflation of revenues. The "trigger" would adjust discretionary spending levels to achieve a balanced budget based on a program's proportion in the budget. This would make balancing the budget automatic and shield politicians from making the difficult votes of reducing spending on popular programs. Should the legislature actually want to craft its own package of reductions and take a formal vote, it certainly could. However, to ensure gridlock does not prevent the balancing of the budget, an automatic "trigger" would be necessary.

Additional Resources

- Barry W. Poulson, *Colorado's Taxpayer Bill of Rights (TABOR) Amendment: An Experiment in Direct Democracy*, Americans for Prosperity Foundation, 2009.
- Barry W. Poulson, *What Is at Stake in the Current Battle over Colorado's Tax and Spending Limits?*, Issue Backgrounder, Independence Institute, March 2009, http://www.i2i.org/articles/IB_2009_C_a.pdf.
- Geoffrey F. Segal and Adam B. Summers, *The Sky Isn't Falling: Proven Strategies for Budget Reconciliation*, Americans for Prosperity Foundation and Reason Foundation, October 2005, http://reason.org/news/show/127597.html.

Reform #2: Employ a Budgeting for Outcomes Budget Process

The adoption of a priority or outcome-based budgeting system would help Nebraska policymakers more easily identify the governmental activities most important to Nebraskans and make difficult trade-off and cost-benefit decisions. It would also result in the provision of better, more efficient state government services while allowing Nebraska to protect taxpayers and maintain fiscal responsibility.

There are surely some functions that state government can stop providing, but unfortunately the traditional budgeting process fails to facilitate this sort of downsizing. Traditional state

budgeting focuses only on the increase to a base budget, and rarely are the "big picture" questions asked; in essence, the budget is on autopilot. The logic of autopilot budgeting is simple: that in order to maintain current service levels, agencies need to spend what they did last year plus an increase to account for inflation and population increases. Put simply, this moves the discussion to the margins of spending—the annual spending increase requests from agencies. Unfortunately, the other 90 to 95 percent of spending is left out of the debate and seldom is analyzed for its relative merits. In fact, it is generally assumed that those activities should continue to receive funding. Put simply, the traditional budgeting process effectively establishes a default position that state government will simply continue to expand over time, which is an unsustainable approach to state fiscal management.

Several states (and more cities and counties) are changing their views about government budgeting. *Priority or outcome-based spending* treats spending as an investment—the type and amount of investment should change yearly as needs, performance and results change. Budgeting this way shifts the focus on the investments and what can be accomplished with available resources—when resources run out, spending stops. Using this model, deficits are nearly impossible.

Nebraska needs to follow the lead of Washington State, Iowa, and others (see Table 22) and begin shifting to an outcome-based budgeting system, also known as Budgeting for Outcomes (BFO), in which policymakers and the public collaboratively rank programs according to how cost-effective they are at achieving the results citizens want. The state government then goes down the list, funds the most important programs first, "buying down" with available revenues until they run out of money. This ensures that vital services are being funded before less-critical ones, and services not deemed of greater importance are reduced or eliminated. Kitchen table budgeting works this way, and there is no reason the state should not do the same.

Table 24: Jurisdictions That Have Used Budgeting for Outcomes

States	Counties
Washington Iowa South Carolina Michigan Louisiana Dept. of Culture, Recreation and Tourism	Snohomish, WA Multnomah, OR Mesa County, CO Polk County, FL Larimer County, CO Coconino County, AZ
Cities	**School Districts**
Azusa, CA Spokane, WA Dallas, TX Ft. Collins, CO Northglenn, CO Redmond, WA Eugene, OR Savannah, GA Baltimore, MD Tacoma Metro Parks, WA	Jefferson County, CO Billings, MT

Source: David Osborne, *The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay*, Policy Study 380, Reason Foundation, April 2010, p. 2.

Washington State—Priorities of Government Budgeting Model

Budgeting for Outcomes was first employed by Governor Gary Locke in the State of Washington in 2002 and was called the Priorities of Government (POG) model. At the time, Washington was facing a potential $2.4 billion budget shortfall (approximately 10-15 percent of the size of the General Fund operating budget). Significant changes were needed to plug the hole in the budget. In an effort to make the most of limited resources and ensure that the most important governmental functions were properly funded, the Locke administration called for a top-to-bottom evaluation of what services the government provided and how.

The Public Strategies Group, led by author, reform expert, and consultant David Osborne (who led Vice President Al Gore's "Reinventing Government" initiative at the federal level under the Clinton administration), developed the POG approach with the Locke administration as a central means of closing the budget deficit. The administration identified a set of ten key results that citizens expect from government:

- Improve student achievement in elementary, middle, and high schools.
- Improve the quality and productivity of our workforce.
- Improve the value of postsecondary learning.
- Improve the health of Washington citizens.
- Improve the security of Washington's vulnerable children and adults.

- Improve the economic vitality of business and individuals.
- Improve statewide mobility of people, goods, information, and energy.
- Improve the safety of people and property.
- Improve the quality of Washington's natural resources.
- Improve cultural and recreational opportunities throughout the state.

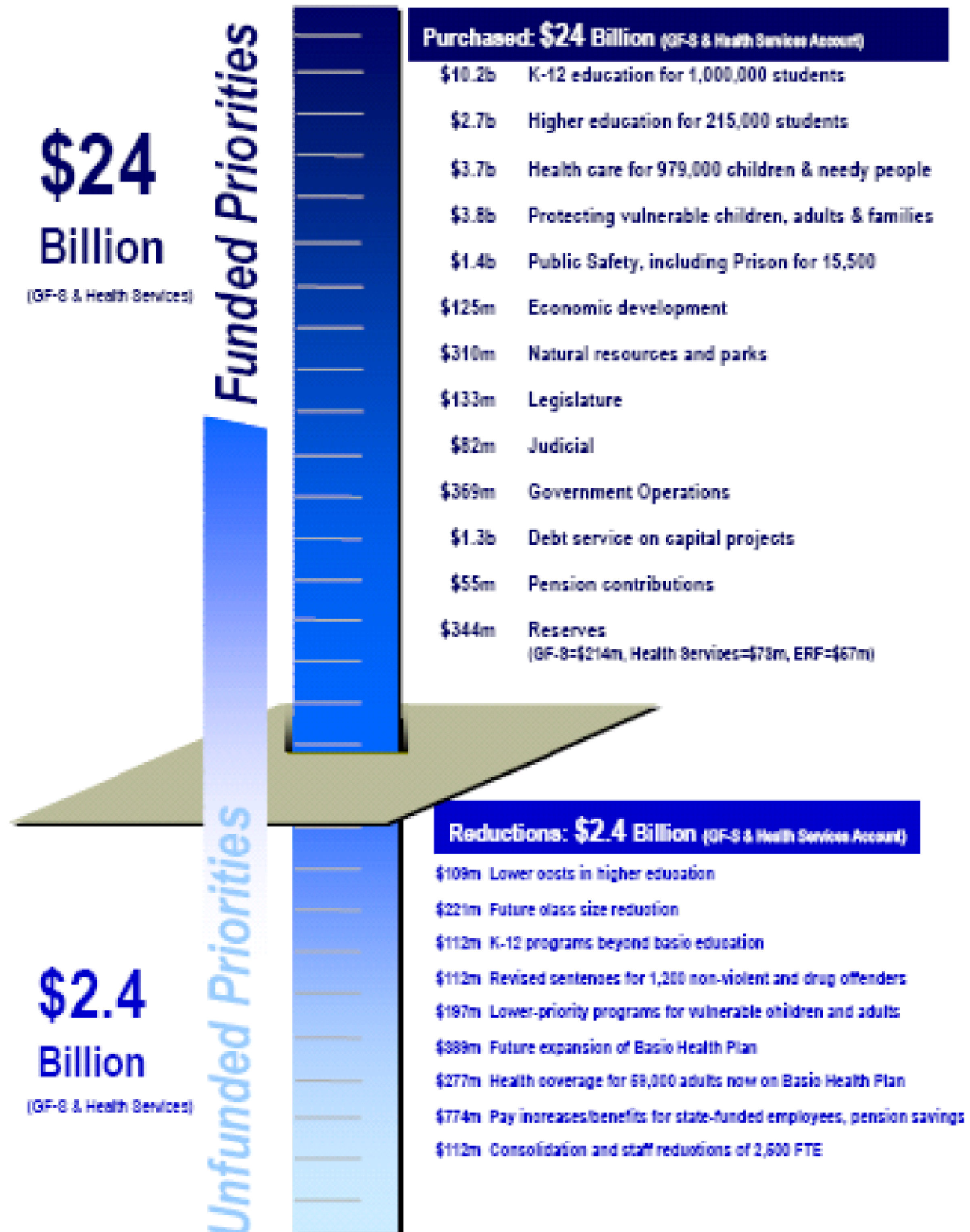
"Result teams" were formed to analyze government activities in each of the ten result areas. In Washington, result teams are comprised of six to eight subject-matter experts from state agencies, and are led by the Office of Financial Management. These teams analyzed and ranked government activities according to how well they achieved the desired outcomes as outlined in the ten governmental goals. The result teams were aided by a 10-member "guidance team" comprised of leaders of the public, private, and nonprofit sectors. The guidance team was tasked with overseeing the prioritization process and reviewing the work of the result teams.

In order to aid in the decision-making process, result teams were each given a dollar allocation to serve as an upper spending limit for their purchase plans. Washington reached several key conclusions regarding the allocation limit:

- The prioritization process is often more meaningful when the allocation is less than the amount currently spent in that area.
- A dollar constraint encourages creativity, keeps proposals grounded in financial reality, and forces people to articulate priorities and choices.[9]

The priority rankings established by the result teams were then used to develop the 2003-05 biennial executive budget proposal. Activities were funded from the top of the list down until the spending limit was reached. Figure 1 offers an illustrative example of some of the spending priorities that were established.

Figure 1: Washington State POG Example



Source: Washington State Office of Financial Management.

The POG model is still used in Washington State today under the current administration, demonstrating the longevity of the approach and its resilience to changes in leadership.

Why Budgeting for Outcome Works

Across-the-board cuts are generally ill-advised—they treat and affect the highest performing and most important services equally with low performing and less important services. By focusing on performance and priorities, policymakers can target their cuts—ridding taxpayers of poor performing, non-essential, and non-core services.

Since politicians, special interests, and bureaucrats often focus on narrow interests and spending priorities while ignoring the larger picture and the sacrifices necessary to accommodate those desires, perhaps the greatest benefit of BFO is simply making budgetary priority and trade-off decisions clear to all. As a U.S. Government Accountability Office report of innovative state performance budgeting efforts noted:

> *One Washington legislator said that [BFO] provided decision makers with proposed priorities in a clear and easily understood format that encouraged constructive debate. . . Legislative officials said that the greatest contribution of [BFO] was that it provides a strong, clear means of communicating budgetary trade-offs to both decision makers and the public.*[10]

The BFO approach to budgeting has several other advantages over the traditional incremental "line-item" approach:

- BFO focuses on achieving results and developing statewide strategies for realizing goals, instead of focusing narrowly on agency "silos."
- BFO illustrates not only which programs are cut, but which programs are funded.
- BFO presents trade-offs and cost-benefit decisions in a way that is clear and easy for decision-makers and citizens alike to understand.
- BFO makes performance information more relevant and useful to budget decisions.
- BFO allows decision-makers to reward programs and activities that best serve state goals and helps reduce waste by identifying ineffective and duplicative programs and services.
- BFO helps identify statutory limitations that are obstructing more effective service delivery.

Adopting a BFO approach would be a major step for Nebraska towards bringing sanity and fiscal sustainability to the budget process. It integrates strategic planning, zero-based budgeting, and performance-based budgeting in a workable, common-sense system that has been replicated in numerous state and local governments. Nebraska policymakers would be well-advised to begin implementing a similar transformation in the budgeting process to ensure that taxpayer dollars are spent with maximum effectiveness and that the trade-offs among different categories of spending—especially in a budget crisis—are made clear and explicit.

Additional Resources

- David Osborne, *The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay*, Policy Study 380, Reason Foundation, April 2010.
- David Osborne and Peter Hutchinson, *The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis*, (New York, NY: Basic Books, 2004).
- Washington State Office of Financial Management Web site, "Priorities of Government," http://www.ofm.wa.gov/budget/pog/.

Reform #3: Adopt a Sunset Review Process for State Agencies, Boards, and Commissions

Once created, rarely are government agencies or programs reevaluated to see if circumstances—or agency performance itself—justify their continued existence. Naturally, this promotes government "sprawl" and spiraling public sector costs. In the absence of any mechanism to continually prune away at government, it is typically far more difficult to shut down an agency or program than it is to create it in the first place.

Luckily such mechanisms exist, one of the more powerful being the use of a sunset review commission. Texas offers a potent example of what a functional, effective sunset commission can achieve. The Texas Legislature established a 12-member Sunset Advisory Commission in 1977 to conduct regular assessments of over 150 state agencies to: (a) determine if each agency is still needed, and (b) identify and eliminate waste, duplication, and inefficiency in state government.

The fiscal impact of Commission recommendations over time has been impressive. Since the sunset process began in 1978, 58 state agencies have been abolished and another 12 agencies have been consolidated. Based on reviews conducted between 1982 and 2009, the Commission estimates a potential 27-year revenue savings of approximately $783.7 million through the sunset process, compared with expenditures of $28.6 million for the Commission.[11] Hence, for every dollar spent on the sunset process, Texas taxpayers have received $27 in return.

Each sunset review must include a recommendation to either abolish or continue the agency, and it may include additional recommendations for policy changes, efficiency improvements, and the like. Notably, the Texas legislature has approved a large majority of the recommendations of the Sunset Commission over time. If the Commission recommends continuation of an agency, the Commission must provide draft legislation to the Legislature to continue for up to 12 years and correct other problems identified during the Sunset review.

Under the Texas system, an agency is automatically abolished unless the legislature passes a continuation bill. If an agency is abolished, the state's Sunset Act provides for a one-year "wind-down" period to conclude its operations and transfer all property and records to an appropriate state agency.

Nebraska should create a similar, permanent sunset review commission to recommend ways the state can cut costs, reduce waste, and improve efficiency and service levels. This commission should review 20 percent of state programs each year, assess the importance of each agency's functions, and recommend the elimination or consolidation of unneeded or outdated programs.

Not only could a sunset review commission identify duplicative services and programs that have outlived their purpose, it could also help the legislature identify low-priority programs the state may wish to fund during the luxury of good economic times, but which are not imperative—and therefore not justified—in times of fiscal distress. With Nebraska facing budget deficits and the prospects for ongoing fiscal challenges in a sluggish economy, state legislators and the governor should take this opportunity to implement a strong sunset review process to reevaluate the government's core functions and responsibilities and streamline the state.

Additional Resources

- Texas Sunset Advisory Commission, http://www.sunset.state.tx.us/.
- Texas Sunset Advisory Commission, *Guide to the Sunset Process*, December 2009, http://www.sunset.state.tx.us/guide.pdf.

Reform #4: Utilize Non-Partisan Revenue Forecasts and an Independent Certification of the Budget

The current budgeting process allows much room for discretion in revenue projections, creating the opportunity for unrealistic projections to serve as the foundation for state spending. Two interrelated reforms can help to address this problem: (1) have a nonpartisan revenue forecast council that meets quarterly and publishes an official state revenue forecast, and (2) have an independent, third-party certification of the budget.

Using non-partisan revenue forecasts—which should account for all taxes, fees, and charges by state government—can help eliminate the bureaucratic tendency to rely on higher-end revenue estimates just to balance the budget. Nebraska has already implemented this reform; the Nebraska Economic Forecasting Advisory Board meets each October and February (and April, in odd-numbered years) to forecast revenues for the biennial budget. Independent revenue forecasts are provided to the Board by the Nebraska Department of Revenue and the Legislative Fiscal Office, which the Board in effect synthesizes and adjusts upward or downward based on its forecasts of economic conditions.

However, the state needs to go further by undertaking the second reform. Requiring the state treasurer (or a similar Comptroller or State Auditor position) to certify the budget would help

to ensure that the budget relies on realistic revenue forecasts. Further, this approach creates a political incentive for accurate budgeting since the Comptroller's professional credibility (and potential political future) is on the line.

The Texas State Constitution gives the Comptroller in that state the authority to certify the state's budget. In advance of each regular legislative session, the Comptroller prepares and submits to the governor and legislature a statement under oath showing the financial condition of the state treasury at the close of the last fiscal period and an estimate of the probable receipts and disbursements for the current fiscal year. The statement also contains an itemized estimate of the anticipated revenue based on the laws then in effect from all sources, showing the fund accounts to be credited during the succeeding biennium.

Except in the case of emergency or imperative necessity and with a four-fifths vote in each house, no appropriation in excess of the cash and anticipated revenue of the funds from which such appropriation is to be made is considered valid. No bill containing an appropriation can be considered as passed or be sent to the Governor for consideration until and unless the Comptroller certifies that the amount appropriated is within the amount estimated to be available in the affected funds.

Nebraska policymakers should close the current gap in their budgeting process by adopting similar provisions as Texas. Giving the state's chief financial officer the ability to prevent unrealistic budgets from being adopted until they match expected revenues would be an important step at tightening and strengthening Nebraska's system of fiscal controls to keep the price of government in check.

Additional Resources

- State of Texas, Senate Research Center, *Budget 101: A Guide to the State Budget Process in Texas*, January 2005, http://www.senate.state.tx.us/SRC/pdf/Budget101_2005.pdf.
- Texas State Constitution, Article 3, Sec. 49a., "Financial Statement and Estimate by Comptroller of Public Accounts; Limitation of Appropriations."

Reform #5: Create a Statewide Real Property Inventory and Take Advantage of Asset Sale and Lease Opportunities

How much land does Nebraska own, and how many assets are held by the state? These seem like basic questions that would have simple answers, but many states and counties do not have the kind of basic property and asset data that a well-run business or responsible family relies on to manage its finances. With millions of acres and thousands of assets in government portfolios, officials should take steps to identify what they own, determine whether government or private ownership is the most effective, and streamline the efficient disposal of all unneeded real property.

A real property inventory (RPI) is simply a written record of what land and assets a government owns. Real property assets are typically immovable property, such as office buildings, warehouses, heavy equipment, or bridges. Governments can also track additional property, like vehicles, in a comprehensive inventory. Inventories can be built in many different ways, but whatever the shape an RPI takes, the end product should be able to answer five questions:

- What does the state own?
- Where is what we own located?
- What is the condition of what we own?
- What is the value of what we own?
- What is the best use of what we own?

Real property inventories have a wide range of applications and value. The process of developing and maintaining an inventory allows government officials to assess their costs in managing property to find ways of being more efficient with taxpayer money. Inventories can even help monitor the effectiveness of spending projects and provide data to economic crisis early warning systems. There are additional non-financial benefits, such as legal compliance and mapping systems for emergency response units. Last, a comprehensive list of land and assets, up-to-date with their current use, allows a governing entity to assess what property it might be able to lease or divest to generate upfront cash in times of economic crisis.

The two most common and effective ways of extracting value from government assets are asset divestiture (the outright sale of government land or assets) and asset leases (long-term leases of public assets to private sector investor-operators). Government asset sales and leases can take a variety of forms. In some cases, government entities sell real property outright, in either an "as is" or "entitled" state (having secured necessary zoning approval). In other cases, these transactions are established as a long-term lease agreement or concession, particularly for revenue-generating enterprises like a golf course, toll road, or parking facility. Still in other cases, such as government-owned buildings, approaches include sale-leasebacks, where the private sector purchases the property for a fixed price and agrees to lease back the facility to the government entity for an agreed upon period of time. Importantly, the government entity can receive a lump sum cash payment in all three scenarios.

A thorough centralized inventory of all state-owned real property and assets is a critical first step that will form the basis for planning, maintenance, and operational decisions moving forward. Developing such a database will also permit the accumulation of benchmarking data to facilitate decision-making while implementing property management decisions, and will provide documented institutional memory in the face of changes in personnel.

Nebraska is well-poised to make an aggressive push on asset management. Many responsibilities regarding the procurement, operation, maintenance, security, management, and disposal of state assets have already been centralized in the State Building Division of the Nebraska Department of Administrative Services (NDAS), making this a natural home for a more comprehensive statewide asset inventory and management initiative.

A first step for NDAS should be to conduct an "inventory of inventories" to find out what the state already knows it owns. This survey project would involve coordinating various state agencies and creating common metrics to record ownership data to provide a benchmark for what next steps in the inventory process should be.

Afterward, the Governor should commission a review to categorize all state-owned property and move towards asset divestiture and realignment opportunities. Within existing staff, a position should be identified in the Department of Administrative Services (or similar department) to be directly accountable for overseeing this portfolio and to be given the necessary authority to exercise those duties on an ongoing basis. Ongoing support for asset inventory maintenance is key, as the state will benefit most from a dynamic property database that it can update over time.

Upon completion of the asset inventory, the governor should commission a review to categorize all state-owned property as: (1) property currently serving a critical function (state courthouses and public safety facilities would be examples) and thus are unlikely candidates for sale or divestiture; (2) real estate that is unused, underutilized, or not linked to concrete program goals; (3) revenue-generating assets that offer significant lease opportunities; or (4) noncritical assets that are not supporting a inherently governmental function (such as public golf courses) for which both sale or lease are viable options.

After the commission categorizes all state owned property, the following steps should be taken:

1. Assemble a procurement team to prioritize asset lease opportunities. This team—appointed by the governor and composed of budget, policy, financial, and legal experts—would conduct a rigorous assessment of potential asset lease opportunities and identify a recommended set of top-tier assets to advance towards privatization or public-private partnerships.
2. Incentivize quick identification and disposal. State officials should develop a system to disburse some portion of the proceeds from real property and asset sales to programs and departments, providing an incentive for those departments to participate in the divesture process. Agencies that identify assets for divestiture should benefit from those sales. For example, the department that operated the surplus property (Parks, etc.) should be given a "commission" for helping identify unneeded property—perhaps 10 percent of proceeds—which could be used for needed capital upgrades or other purposes. As it stands, departments have few incentives to seek divestiture opportunities because they receive none of the benefits of surplus sales.
3. Contract with the private sector to conduct a market-value disposal of surplus property. Such opportunities include partnering with local private real estate brokers. Additionally, rather than conducting its own live auctions, the state can employ readily available online auction markets for the disposal of property. Whereas live auctions require a physical presence and severely limit participation, online auctions are global in their reach and participation.

The recent experience of states and local governments demonstrates the opportunities and potential of asset divestiture initiatives. For example, using technology and analysis systems developed by the vendor ARCHIBUS to manage state property, the State of Missouri saved $3 million directly through the consolidation of state facilities, and an additional $10 million in annual savings from improved billing, space utilization, work order, and lease management.

Georgia offers another powerful example of this process's success. In 2004, Georgia Governor Sonny Perdue realized each state agency was handling its own space management without cross-agency coordination, resulting in inefficient facility use and little or no opportunity for comprehensive management of real estate assets. He created the "Governor's Commission for a New Georgia" by executive order, one aspect of which was to develop a statewide land inventory.

When the state set out to inventory its property, it found many cases of gross mismanagement of public resources. Using its state "Building, Land & Lease Inventory of Property" (BLLIP), Georgia identified several properties that were not being put to full use. In one case, underused properties were consolidated into the Douglasville One Stop Shop, a collocation project of three state agencies.[12] This project resulted in:

- A cost savings totaling $150,000 annually (maintenance, security, etc.);
- An additional 18,000 square feet of office space;
- $22 million revenue to the state by selling surplus property (easily identifiable through
- BLLIP); and
- $1.1 million saved in 2006 through renegotiation and consolidation of leases that will save an estimated $20.5 million through 2012.

BLLIP also identified two properties in close proximity of each other that could be consolidated, saving Georgia $102 million over ten years.

The fiscal benefits Georgia attained did not come from passive management but intentional pursuit of efficiency. Lonice Barrett, Director of Implementation for the governor's commission, says, "Now we can ask why an agency is doing one thing with one property while another agency is doing something else with a similar property. We found examples where an agency had two buildings in one office park and were paying different rates for the two offices."[13]

Nebraska would similarly benefit from taking comprehensive steps towards being a better steward of the land it owns and streamlining the efficient transfer of all unnecessary or underused real property. This would improve proper asset management, encourage economic growth, and generate—instead of consuming—tax dollars.

Additional Resources

- Anthony Randazzo and John Palatiello, *Knowing What You Own: An Efficient Government How-To Guide for Managing State and Local Property Inventories*, Policy Study 383, Reason Foundation, June 2010, http://reason.org/news/show/managing-state-local-property.
- John Palatiello, *What's in the Government's Attic?*, Policy Brief 33, Reason Foundation, December 2004, http://reason.org/news/show/whats-in-the-governments-attic.

Reform #6: Expand the Use of Privatization and Competitive Contracting

> *"It is better for the public to procure at the market whatever the market can supply; because there it is by competition kept up in its quality, and reduced to its minimum price."*
>
> — Thomas Jefferson, 1808

Though there are many causes of Nebraska's current fiscal woes, one contributing factor is that over the years governments at all levels have expanded into hundreds of activities that are commercial in nature. Many of these are support functions that service the bureaucracy. However, most of these functions are not inherent or unique to government; in fact, they can be found in the Yellow Pages in towns all over America. This trend should concern those of us who believe that government should be focused on performing its core functions well and should not be in competition with its own citizens to perform non-core functions. In many areas of government service delivery, Nebraska's state and local governments are literally cutting into the business of business.

In fact, if the experience of other states holds true in Nebraska, then policymakers can reasonably assume that thousands of state employees are engaged in activities that are commercial in nature and could be delivered by private sector firms at a lower cost and higher level of quality. Identifying areas where the private sector can perform government functions more efficiently and at a lower cost can be an important part of the budget solution.

The term "privatization" refers to a broad array of strategies that governments increasingly employ to take advantage of the capabilities of the private sector and thereby provide better value to the public. It covers a spectrum ranging from a simple outsourcing contract—for example, contracting a private landscaping firm to mow the lawn around public buildings—to sales of government properties and to complex, joint public-private ventures to deliver assets (such as toll roads, bridges, and public buildings) that are government-owned but are financed, built, and operated by the private sector under long-term leases.

Policymakers and government administrators turn to privatization to achieve a number of different goals:

- ***Cost Savings***: A Reason Foundation review of over 100 privatization studies found that cost savings ranged between 5 and 50 percent, depending upon the scope and type of service; cost savings through privatization typically average between 10 and 25 percent, according to Reason Foundation experts.[14] As perhaps the most impressive example at the statewide level, Florida used privatization competitive sourcing more than 130 times during the 8-year tenure of former Governor Jeb Bush, saving more than $550 million in actual dollars and prevented an estimated $1 billion in additional costs (see the discussion in "Reform #7: Establish a State Privatization and Efficiency Council" below).
- ***Access to Expertise***: Contracting gives governments access to expertise they do not have in-house on an as-needed basis. It is cheaper to retain architects, engineers, and lawyers on an as-needed basis than to hire them as full-time employees.
- ***Better Quality***: Competition brings out the best in competitors, whether it is in sports or the business of providing public services. Bidders have incentives to offer the best possible combination of price and service quality to beat their rivals.
- ***Improved Risk Management***: Contractors, rather than the government, are responsible for cost overruns, strikes, delays, and other risks.[15]
- ***Innovation***: Competition to win and retain contracts spurs the discovery of new, cutting-edge solutions. Without competition, even top-notch employees may stop looking for ways to improve how they meet customers' needs.
- ***Meeting Peak Demand***: The cost of providing a public service can be raised considerably by the capital and manpower needed to satisfy demand at peak periods, even though those peaks may last only for a few hours a day, a few days a week, or a few months a year. Contracting allows governments to obtain additional help when it is needed so that services are uninterrupted for residents.
- ***Timeliness***: "Time is money" if you are a contractor footing the bill, or if your contract with the city or state includes penalties for delays. Contractors can recruit additional workers or provide performance bonuses to meet or beat deadlines, options that often are unavailable to in-house staff.

All of these goals can be bundled under the banner of "performance." Using privatization to achieve a combination of cost savings and improvements in quality, innovation, speed, expertise and innovation is key to achieving higher performance in government service delivery.

Because every state government uses privatization to some degree—and in a myriad of ways—comprehensive studies of state-level use of privatization are difficult to produce and are rarely compiled. The most recent comprehensive state-level privatization trend survey released by the Council of State Governments (CSG) in 2003 found that the amount of privatization largely remained the same or increased slightly across the states between 1998 and 2002. When asked about the primary motivations for privatization, a majority of state budget directors cited cost savings, while agency heads ranked a lack of personnel or expertise as the number one reason for privatization. The CSG survey also noted that privatization trends will likely continue in state agencies, with nearly half of surveyed officials responding that privatization in their state or agency was likely to increase and the other half responding it would remain the same.

While there are literally dozens of state services and government activities for which privatization could be applied, some of the most often-privatized at the state-level include:

- Highway design and maintenance
- Building repair and maintenance
- Vehicle fleet operations, maintenance, and ownership
- Information technology
- Administrative support services (e.g., human resources, payroll, accounting, mail, printing, etc.)
- Risk management (e.g., claims processing, loss prevention services)
- Facilities financing, operations, and maintenance
- Park operations and maintenance
- Corrections and mental health (facility operations and management, health care, medical and food services)
- Core infrastructure (roads/transit, water, etc.)
- Engineering services
- Welfare-to-work programs
- Child care, child welfare, and adoption programs
- Juvenile rehabilitation
- Environmental lab analysis

Recommendations for privatization are not self-implementing. Privatization is a disruptive process in that it requires transformational change—a change in thinking among career civil servants and among appointees who are mastering new responsibilities; however, people are by nature resistant to change. Further, as Nebraska has experienced first-hand with its large-scale child welfare services privatization in recent years, change does not occur overnight, and it often happens in fits and starts. Several years into Nebraska's child welfare privatization, the state has predictably seen a mix of successes and challenges, and it will take a sustained commitment by policymakers and administrators to ensure that the full benefits of privatization are realized. According to Todd Reckling, director of the division of children and family services in the Nebraska Department of Health and Human Services, "True system reform is not going to happen overnight. . . . It's a multiyear process. We're probably talking two to perhaps five years." [16]

The success of any privatization initiative will depend on a variety of factors, but two stand out:

- ***Performance-based contracts***: The legal foundation of a privatization initiative is a contract that spells out all of the responsibilities and performance expectations that the government partner will require of the contractor. No detail is too small. Failure to meet the performance standards specified in the contract should expose the contractor to financial penalties, and in the worst-case scenario, termination of the contract.
- ***Strong contract monitoring and oversight***: Government does not walk away after signing a contract; in fact, in many ways the process—and an ongoing partnership with the

contractor—is just beginning. Policymakers and administrators should develop strong oversight, monitoring, and assessment protocols before entering into a contract to ensure compliance and performance, and should then follow through on full implementation. Monitoring should focus on quantifiable measures and achieving results, not on process.

To help keep Nebraska's state budget in check and promote efficiency in government, it is critical to eliminate wasteful, non-essential government functions by continually challenging state entities to identify and focus on their core functions and competencies. Privatization and competitive contracting are vital tools in this process that involve looking at everything government agencies do and determining whether private firms could do the same things more efficiently and effectively. Additionally, minimizing government competition with businesses will help states retain (and grow) private sector jobs and increase state revenue by shifting tax-exempt properties and activities to the taxable sector.

Additional Resources

- Leonard Gilroy and Adrian Moore, *Ten Principles of Privatization*, Legislative Principles Series No. 7, Heartland Institute, July 2010, http://www.heartland.org/custom/semod_policybot/pdf/27946.pdf.
- Leonard Gilroy, *Streamlining Government through Privatization and Public-Private Partnerships*, Testimony before the New Jersey Privatization Task Force, April 7, 2010.
- E.S. Savas, *Privatization and Public-Private Partnerships* (New York, NY: Chatham House Publishers, 2000).
- *Annual Privatization Report 2009*, Reason Foundation, http://www.reason.org/apr2009.

Reform #7: Establish a State Privatization and Efficiency Council

As discussed in the previous section, policymakers should embrace privatization and the competitive contracting of government services to drive service delivery improvements and better value for each taxpayer dollar spent. A key lesson learned from global experience in privatization is that it works best when governments develop a centralized, independent decision-making body to manage privatization and government efficiency initiatives.

Nebraska should follow the lead of innovative states like Florida by creating a Council on Efficient Government designed to serve as the enterprise-wide gateway for best business practices in competitive contracting and standardize how the state identifies and conducts competition initiatives (i.e., a state "center of excellence" in procurement).

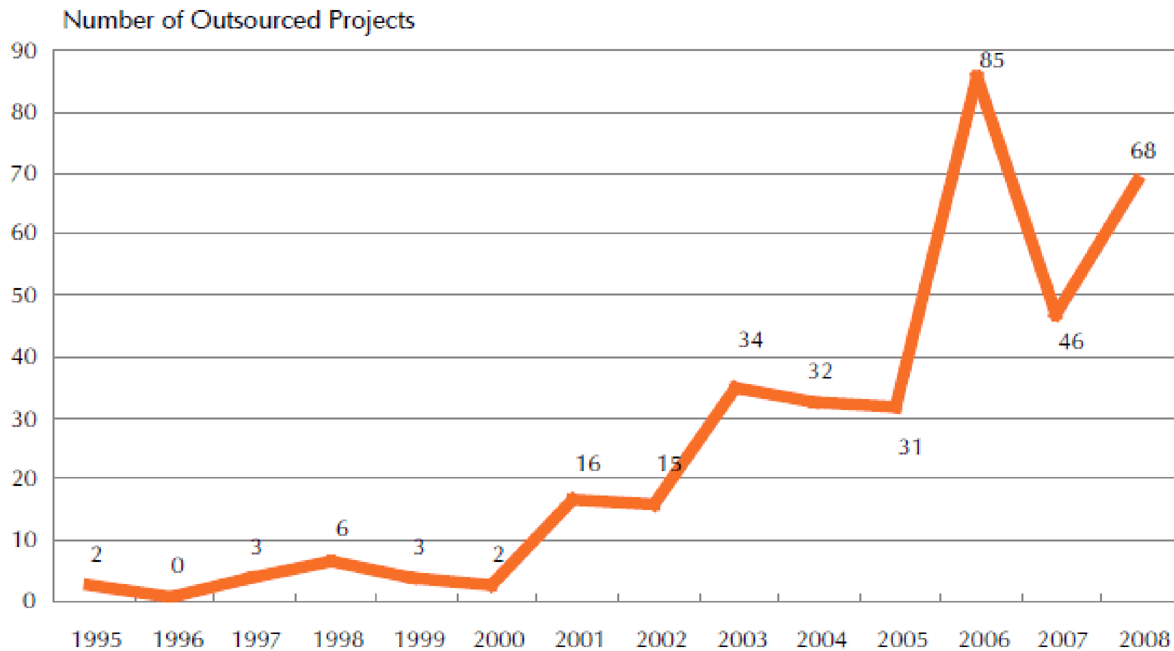
Florida's Council on Efficient Government was developed in 2004 during former Governor Jeb Bush's tenure and was a key component of a strategy that ultimately helped his administration realize over $550 million in cost savings through over 130 privatization and competition initiatives. When many other states were raising taxes, these initiatives helped Florida shed almost $20 billion in taxes during Bush's term.

Midway through his term, some of Bush's major privatization successes became overshadowed by the media spotlight on a few major outsourcing projects that experienced difficulties in implementation. Recognizing the need to improve (a) state procurement and (b) the state's ability to monitor the procurements, Gov. Bush signed an executive order in March of 2004 directing the Department of Management Services to create a "center of excellence" authorized to conduct a statewide evaluation of Florida's competitive sourcing efforts. The new Center for Efficient Government (subsequently codified by the legislature as the Council on Efficient Government) was empowered to "identify opportunities for additional [competition] initiatives, and oversee execution of future [competition] projects."

The CEG's mission is "to promote fair and transparent best business practices in government in order to foster accountability, competition, efficiency, and innovation in the way state agencies serve Florida's citizens." It serves as the enterprise-wide gateway for best business practices in competitive sourcing and standardizes how the state identifies opportunities, conducts competitions, and awards and manages contracts for government services. Perhaps its most important responsibility is the preparation of business case evaluations of proposed privatization initiatives *before deciding whether or not to proceed* in order to help managers and policymakers thoroughly evaluate an initiative's merits from the outset.

Prior to 2001, Florida had a total of 16 outsourced projects reported by state agencies. From 2001 to 2006, the state initiated an average of 37 projects annually (see Table 23). For FY 2008, state agencies identified 551 projects currently being outsourced with a lifetime value of over $8 billion.[17] Notably, the CEG was initially created in 2004, which coincides with the tremendous ramp-up in state privatization. Since Bush's departure, the CEG is still humming along. In 2009 alone, the Council evaluated 23 new business cases for potential agency outsourcing projects with a cumulative value of more than $225 million, identifying more than $31 million in projected savings to the state.[18]

Figure 2: Florida State Outsourcing Projects by Fiscal Year, 1995–2008



Source: Florida Council on Efficient Government[19]

In Nebraska, a similar center of excellence should be established and given the responsibility to:

- Develop a standardized, enterprise-wide process for identifying and implementing competitive sourcing;
- Assist agencies in developing business cases for any proposed privatization initiative—before procurement—that clearly outline the rationale for the initiative (cost savings, service quality improvements, changing antiquated business practices, etc.);
- Develop rules instituting performance-based contracting and business case development as requirements for state procurements;
- Disseminate lessons learned and best practices in competitive sourcing across state government;
- Conduct an annual or biannual inventory of all functions and activities performed by state government, distinguishing between inherently government and commercial activities;
- Create a uniform cost accounting model to facilitate "apples-to-apples" cost comparisons between public and private sector service provision (critical to ensure a level public-private playing field);
- Review and take action on complaints regarding inappropriate government competition with the private sector.

With widespread state fiscal crises deepening across the country, other state policymakers are increasingly looking to the example set by Florida and the other states that have pioneered this

privatization “center of excellence” concept as they struggle to close large budget deficits. For example, in December 2009 Louisiana’s Commission on Streamlining Government (established by Gov. Bobby Jindal) released a set of 238 government downsizing recommendations—including a recommendation for a “center of excellence” in privatization, as well as over a dozen specific privatization proposals—that are estimated to save over $1 billion.

Similarly, the New Jersey Privatization Task Force established in 2010 by Governor Chris Christie has recommended that the Governor announce as an administration priority that achieving efficiency through private sector competition become standard policy for all state agencies. To that end, the Task Force recommended that the Christie administration establish a centralized privatization entity for the state that would fulfill functions similar to Florida’s CEG.

Having a Florida-style Council on Efficient Government in place would facilitate the regular, wholesale review of state government activities with an eye toward right-sizing government through competition and privatization. But, at the same time, it recognizes that successful privatization requires a high standard of due diligence in contracting. Hence, the Council would be responsible for establishing a standardized method for procuring and managing contracts in order to maximize accountability, transparency, and competition, and deliver the best value for taxpayers.

Altogether, a sound privatization policy framework is essential to maximizing cost savings and value for money in the delivery of state services. Experience from Florida, Virginia, and Utah—which have each implemented versions of the procurement “center of excellence” concept—also suggests that this approach has increased the public’s confidence and mitigated perceptions of impropriety, a common public perception and concern with any privatization initiative. Further, having a dedicated unit manage the process on an enterprise-wide scale ensures that the benefits of lessons learned and best practices are shared among agencies.

Additional Resources

- Leonard Gilroy and Adrian Moore, *Ten Principles of Privatization*, Legislative Principles Series No. 7, Heartland Institute, July 2010, http://www.heartland.org/custom/semod_policybot/pdf/27946.pdf.
- Leonard Gilroy, *State Competitive Government Commission: A Tool for 'Right-Sizing' Kansas Government*, Reason Foundation testimony to the Kansas House Appropriations Committee, January 27, 2010, http://reason.org/news/show/state-competitive-government-c.
- Henry Garrigo, “Look Before You Leap Into Privatization: Florida’s Council on Efficient Government Sets a New Standard in Transparency, Due Diligence in Privatization and Contracting Decisions,” interview in Leonard Gilroy (editor), *Innovators in Action 2009*, Reason Foundation, January 2010, http://reason.org/news/show/innovators-in-action-2009.
- Florida Council on Efficient Government, *Annual Report 2009*, http://dms.myflorida.com/index.php/content/download/63973/274570/version/1/file/Annual+Report+2009.pdf.

Reform #8: Implement Public-Private Partnerships to Finance Transportation Infrastructure

The current "perfect storm" of growing budget deficits, declining tax revenues, and a sluggish economy has placed severe stress on state budgets, prompting policymakers to seek new solutions to maintain and expand their transportation facilities and other infrastructure assets. Like many states, Nebraska finds itself at the convergence of two intersecting trends that demand attention. First, growing transportation needs are outstripping available capacity, and second, the need for maintenance and renovation of existing systems is eating up available financial resources. A failure to address these twin challenges will lead to even greater congestion in various forms and lowered reliability of service in the future. By any measure, these realities impact Nebraska's economic competitiveness and its citizens' quality of life.

Nebraska has made major strides in improving its highway system in recent years, but the state's looming transportation funding gap threatens to unravel these gains. Further, absent new funding and procurement mechanisms, Nebraska would be faced with having to close the infrastructure funding gap without some of the tools available to other states. The transportation challenges are confronting a state that is unable to deal with them outside of the traditional means of gas taxes, vehicle fees, and government subsidies, which challenge the ability of the state to keep the overall transportation system ahead of the curve.

To keep Nebraska moving forward and help position itself for the modern economy, the state will need to adopt successful transportation strategies from other states and strive to innovate in ways that will best serve Nebraskans. Forward thinking states like Virginia, Florida, Texas, and Arizona are increasingly looking to supplement dwindling "traditional" transportation revenues (federal grants, fuel taxes, vehicle fees) with private sector investment through public-private partnerships (PPPs). PPPs are just one "tool in the box," but this promising and valuable option available to policymakers has been relatively untapped in Nebraska.

PPPs are contracts formed between public agencies and private companies that facilitate greater private sector participation in the delivery of transportation assets and services. PPPs offer a way to leverage private capital and expertise to provide a public service, and states are increasingly using them to deliver needed new transportation capacity while stretching limited taxpayer dollars. Although often thought of simply as "private toll roads," transportation PPPs actually allow for many options to finance, construct, and/or maintain new and enhanced transportation facilities. PPPs come in many forms, including the development of new infrastructure, the maintenance of existing infrastructure, and the operation of existing services. PPPs are never going to completely replace the traditional means of funding transportation, but they are a very promising method in which to augment traditional transportation revenue sources and provide more transportation project delivery options and cost savings to Nebraskans.

Workable legislation is generally needed to entice private sector investment, but Nebraska currently lacks broad enabling legislation for these partnerships. The reality is that transportation

projects are going to states like Virginia, Florida, and Georgia that have created a solid legal foundation for PPPs—where the law facilitates PPPs and where private investment and participation is welcomed and embraced. The modern use of public-private partnerships in the transportation arena in the United States originated over 15 years ago with California's enactment of AB 680 and adoption by the Commonwealth of Virginia of its Public-Private Transportation Act of 1995. Since the passage of these two enabling statutes, over half of the states have now adopted legislation authorizing the use of PPPs for the design, construction, financing, and operation and maintenance of transportation facilities.

Today, PPP toll projects are currently in operation or in development in states like California, Florida, Texas, and Virginia. Since the beginning of 2009, Florida reached financial close on two Miami-Fort Lauderdale area PPP toll projects totaling over $2 billion in value, and Texas reached financial close on two PPP megaprojects in the Dallas area accounting for over $6 billion in investment. These are vital, congestion-busting projects that would not have been able to advance without private financing. Until Nebraska policymakers embrace PPPs and pass a workable enabling law to facilitate them, other states will continue to reap these benefits at the expense of Nebraska's economy and business climate.

Policymakers would then no longer be forced to choose between increasing costs to taxpayers or reducing services to motorists. PPPs, when implemented properly and carefully, can benefit both the state and its citizens. Opportunities for PPPs exist in Nebraska in many important facets of transportation, including constructing new highways, building new bridges, and maintaining and operating state and local roads through competitive contracting. In fact, PPPs may offer a viable means of financing some of the state's large-scale capital improvement projects that currently lack a funding source, such as the $175 million Highway 2/Lincoln South Beltway project and the $145 million Highway 34/75 Missouri River Crossing.

Embracing PPPs would represent a new way of thinking for Nebraska and could help the state address its looming transportation funding shortfall in order to keep people and goods—and, ultimately, the state economy—moving forward.

Additional Resources

- Shirley Ybarra and Leonard Gilroy, *The Role for Public-Private Partnerships in Modernizing and Expanding Nebraska's Transportation System*, Platte Institute for Economic Research, December 2010, http://www.platteinstitute.org/docLib/20091208_NE_Transportation_Study_-_FINAL.pdf.
- Leonard Gilroy, Robert Poole, Peter Samuel, and Geoffrey F. Segal, *Building New Roads Through Public-Private Partnerships: Frequently Asked Questions*, Reason Foundation, March 2007, http://reason.org/news/show/1002866.html.
- National Surface Transportation Infrastructure Financing Commission, *Paying Our Way: A New Framework for Transportation Finance*, Final Report, February 26, 2009, www.tinyurl.com/yl8xzvl.

Reform #9: Enact School Empowerment and Student-Based Budgeting Reforms

Since 1990, the State of Nebraska has been working to equalize school funding between districts with different property tax wealth through state aid to provide greater equity to all public school students. Generally, Nebraska school districts receive state aid based on the needs of their students and the amount of locally generated revenue. The Nebraska state aid works to fill the gaps between local property tax wealth and student need by equalizing student funding between districts.

However, at the district level these resources are not necessarily allocated to schools based on individual student characteristics. Schools in Nebraska are allocated resources for staffing positions based on the number of full-time equivalent (FTE) salaries to which the district has calculated an individual school is entitled. So when one examines individual school budgets in Nebraska, one sees money flowing to school positions, not to children.

Individual schools with similar student populations may receive vastly different real dollar amounts at the school level within a district. In addition, in Nebraska, school districts allocate staff to school buildings based on student formulas rather than allowing principals autonomy to spend school dollars to meet the needs of their individual students.

Student-based budgeting works best when all funding is equalized and not based on differences in local property tax allocation. Nebraska has already made efforts to equalize funding across districts and implement equitable funding for students. Therefore, it already has a culture concerned with school equity and a more centralized funding system than most states. Student-based budgeting is the next step to drive that student equity to the school level and allow parents and school principals at the local level to make decisions about school spending.

Nebraska should create one simple funding mechanism that distributes federal, state, and local funding based on a "student-based budgeting" financing system that would include one base allocation equalized across the schools within a district and additional weighted funds for students with additional needs including characteristics such as special education, poverty, or English learners.

This process would make school finance simpler and more equitable, and bring significant cost savings by reducing central office costs and redirecting some of this savings to increase per-pupil funding allocations in the classroom. In addition, Nebraska should require the funding to follow students down to the school level and allow principals discretion over school budgets.

Using student-based budgeting's decentralized system, education funds are attached to each student and the students can take that money directly to the public school of their choice.

Key student-based budgeting principles that improve educational outcomes as well as the transparency and accountability of schools include:

1. Funding follows the child to the public school of his choice;
2. Per student funding varies based on a child's educational needs, with special education students and others receiving larger amounts;
3. Funding arrives at individual schools in real dollars, not in numbers of teaching positions, staffing ratios, or as salary averages.

In addition, one of the most important factors in the success of schools is decentralized decision-making. Principals should have autonomy over their budgets and hiring teachers. This local flexibility allows principals to tailor their schools to best fit the needs of their students.

At least 15 school districts and the State of Hawaii have moved to this system of student-based budgeting and autonomous schools. The results from districts using student-based funding are promising. For example, prior to 2008, less than half of Hartford, Connecticut's education money made it to the classroom. Now, under student-based budgeting, over 70 percent makes it to the classroom. Hartford School District achieved this goal with a 20 percent reduction of central office expenses including the reduction of over 40 district-level positions.

In 2008, Baltimore City Schools faced a $76.9 million budget shortfall. Superintendent Andres Alonso instituted student-based budgeting. He identified $165 million in budget cuts at the central office to eliminate the deficit and redistributed approximately $88 million in central office funds to the schools. By the 2010 school year, Alonso cut 489 non-essential teaching jobs from the central office, redirecting 80 percent of the district's operating budget to individual schools.

In California, student-based budgeting has successfully offered every public school autonomy in two urban school districts. San Francisco changed to a student-based budgeting system in 2002 and the district has outperformed the comparable large school districts on the California Standards Tests for seven straight years. A greater percentage of San Francisco Unified students graduate from high school than almost any other large urban public school system in the country. And across the Bay, Oakland has produced the largest four-year gain among large urban districts on California's standardized tests since implementing a form of student-based budgeting in 2004.

The New York City Model

One case that is particularly relevant is the New York City example because it shows that it is possible to offer schools charter-like autonomy and take student-based budgeting to scale, and demonstrates that this could be taken to scale across an entire state.

Beginning in 2007-08, the New York City Department of Education began empowering all

public schools, so that educational decisions happen in schools, where the people closest to students decide what will help students succeed. In New York, public school empowerment is built on the Empowerment Schools initiative pilot. In the 2006-07 school year, 332 New York City public schools took on greater decision-making power and resources in exchange for accepting accountability for results. These "Empowerment Schools" worked under performance agreements, committing to high levels of student achievement with clear consequences for failure. In exchange for this commitment, principals and their teams had the freedom to design educational strategies tailored to their students. These schools have hand-picked their support teams, hired additional teachers, implemented creative schedules, designed tailored assessments, invested in professional development, and purchased both internal and external services that meet their needs and their students' needs. Initial results are promising, with more than 85 percent of empowerment schools meeting the performance targets set by the Department of Education.

Following on that success, beginning in the 2007-08 school year, all New York public schools were empowered, giving their principals and their teams broader discretion over allocating resources, choosing their staffs, and creating programming for their students.

Schools also have increased resources because of the Department's new student-based budgeting system called "Fair Student Funding." The New York City program is based on simple principles:

- School budgeting should fund students fairly and adequately, while preserving stability at all schools.
- Different students have different educational needs, and funding levels should reflect those needs as well as possible.
- School leaders, not central offices, are best positioned to decide how to improve achievement.
- School budgets should be as transparent as possible so that funding decisions are visible for all to see and evaluate.

In keeping with these principles:

- Money follows each student to the public school that he or she attends.
- Each student receives funding based on grade level.
- Students also may receive additional dollars based on need.
- Principals have greater flexibility about how to spend money on teachers and other investments—along with greater responsibility for dollars and greater accountability for results.
- Key funding decisions are based on clear, public criteria.

Why This Works

Student-based budgeting works because it generally includes every public school in a school district, education corporation, or geographic area. It changes the culture of the public school system.

Everyone becomes focused on student outcomes because families have legitimate choices within the public school system. If an assigned, or neighborhood, school is not meeting a child's needs, that child can move to another school within the district and take their funding with them.

Every school in a state or a district becomes a school of choice and the funding system gives individuals, particularly school administrators, the autonomy to make local decisions. This autonomy is granted based on the contractual obligation that principals will meet state and district standards for student performance. It is a system-wide reform that allows parents the right of exit to the best performing schools and gives every school an incentive to change practices to attract and retain families from their communities.

The Path Forward for Nebraska

- The state level funding formula should be changed so that the money follows the child to the school level rather than the district level.
- The state should implement school-level budgets so that school funding is transparent and equitable at the school level rather than the district level.
- Schools should receive revenue in the same way that the district receives revenue, on a per-pupil basis reflecting the enrollment at a school and the individual characteristics of students at each school.
- Principals must be able to make decisions about how to spend resources in terms of staffing and programs. The more "unlocked" dollars a principal controls, the more autonomy that principal has over designing the school to meet the needs of the students in the school. The state should require districts to place the majority of their operating budget, between 70 and 90 percent, into a school-level allocation to offer principals more autonomy and more real decision-making power.

Additional Resources

- Lisa Snell, *Weighted Student Formula Yearbook 2009*, Reason Foundation, April 30, 2009, http://reason.org/news/show/weighted-student-formula-yearb.
- Lisa Snell, *Fix the City Schools: Moving All Schools to Charter-Like Autonomy*, Reason Foundation, Policy Brief 87, March 2010, http://reason.org/files/pb87_fix_schools_charters.pdf.

Reform 10: Reinvent Nebraska's Higher Education System

The rising costs of higher education are a policy challenge even in good economic times. However, given that higher education spending typically ranks among the top state spending categories (with health care, K-12 education and corrections), the current fiscal malaise in the states is shining a spotlight on this important category of state spending.

A 2009 Platte Institute report highlighted some of the challenges facing higher education in Nebraska:[20]

- Nebraska outspent both the U.S. and its neighbors in terms of higher education spending per capita and as a share of gross state product (GSP).
- In 2006, Nebraska appropriations per full-time equivalent (FTE) college student were $6,999. This is 10.7 percent higher than the national average of $6,325 per state. Further, appropriations per FTE in Nebraska over 20 percent higher than in 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 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.

Nebraska's ability to compete in the 21st century, knowledge-based economy demands that public higher education institutions more efficiently and effectively educate larger numbers of its citizens in what is likely to become an increasingly constrained budget environment. Yet, colleges and university systems are complex enterprises both from an operational and public policy perspective, and there are no silver bullet solutions for streamlining and modernizing higher education systems.

The need to tackle large-scale systemic reforms has prompted some governors to create post-secondary education reform commissions in recent years. In 2009, Louisiana Governor Bobby Jindal created the Postsecondary Education Review Commission to recommend to the Board of Regents and the legislature the most efficient and effective ways for the state to educate citizens in the context of the state's ongoing financial challenges. The Commission issued its final report in February 2010, outlining 22 substantive system reforms to modernize higher education in Louisiana. Similarly, in March 2010 Virginia Governor Bob McDonnell issued an executive order creating the Governor's Commission on Higher Education Reform, Innovation and Investment, which will focus on crafting a sustainable higher education funding model to systematically move Virginia toward higher levels of educational attainment and economic competitiveness over the next 15 years.

While a commission or task force may be necessary to explore the depth and finer details of system-wide spending in Nebraska—and would be an important first step—there is no need to wait to get started on the difficult work of higher education reform. The following sections dis-

cuss three key reforms that Nebraska policymakers can use to begin the process of larger, system-wide reinvention in higher education.

Provide higher education grants directly to students, not universities: Just as local school districts are beginning to discover the benefits of "backpack"-based funding models (see previous section) that foster choice and competition among schools, similar lessons can be applied at the level of state higher education systems. Instead of lump-sum appropriations to public institutions, Nebraska policymakers should consider reforming the funding model to distribute funds directly to students in the form of grants, and let the universities compete for their business.

Having to compete for students would create strong incentives for state higher education institutions to control their own costs, keep tuition rates in check and innovate in their educational offerings. Otherwise, if they fail to keep up with competing institutions—public or private—universities risk losing students and the education dollars they bring.

In 2005, Colorado created the College Opportunity Fund, the first statewide higher education grant system adopted in the nation.[21] Rather than making lump-sum payments to its public undergraduate institutions, funding goes directly to state undergraduates in the form of stipends. Like the federal Pell Grant program, students can use their grants at any in-state, public or private college or university of their choice.

A 2006 study by the Arizona-based Goldwater Institute recommended this approach for Arizona.[22] The study found that the $1.3 billion in operating funds (excluding capital and construction expenses) that had been allocated annually to public colleges and universities in Arizona via state and local lump-sum funding could have instead been used to give every projected resident student an $8,000 grant annually to attend a four-year institution (or $5,000 annually to attend a two-year college).

Notably, this would have left intact $2.4 billion in annual revenue Arizona public institutions were receiving from tuition and fees and other revenue (e.g., local, state, and federal grants for capital and special projects, private gifts and grants, and endowment and auxiliary revenue). Also, the study finds that tying operating funding directly to students and indexing grant amounts to inflation would have saved an estimated $768 million annually over the state' lump-sum funding system, which does not account for student counts or inflation.

Privatize university support, administrative and commercial functions: Public institutions of higher education are similar to state governments as a whole in one important way—they tend to grow into large bureaucracies that expand into non-core, commercial functions and activities over time, rather than strategically using privatization and competitive contracting to deliver efficiencies and cost savings.

As discussed earlier in this report, privatization can typically lower the costs of service delivery by 10 to 25 percent. Some privatization opportunities at universities include:

- Facility maintenance;
- Landscaping and grounds maintenance;
- Security operations;
- Parking operations and maintenance;
- Transit services; and
- Administrative support functions (e.g., information systems, accounting, payroll services, human resources, etc.)

Savings and operational changes can be significant, as two recent examples illustrate. In July 2010, the final report of the New Jersey Privatization Task Force estimated that colleges and universities in the Garden State could save approximately $27.4 million annually through the outsourcing of a variety of facility maintenance functions. Also, the University of Alaska-Fairbanks announced plans in 2010 to contract out the management of its bookstore to Follett Bookstores, the largest national college bookstore operator, citing high operating costs and Internet book downloads as impediments to a sustainable in-house operation. The privatization will return textbooks to the bookstore, improve the online store, and provide new services and a wider array of merchandise.

Nebraska university administrators should immediately begin looking for new and creative ways to tap privatization and competitive contracting to drive down costs and improve services.

Embrace innovative finance and public-private partnerships (PPPs) for capital projects: State universities invest a tremendous amount of capital into new and expanded facilities—academic buildings, administrative complexes, dormitories and the like—but rising fiscal pressures are making it increasingly difficult to do so. State university systems across the country are beginning to look beyond traditional tax-exempt financing (e.g., bonds, etc.) towards more innovative procurement models that bring private sector capital and expertise to bear on the financing of university facilities (see earlier discussion on PPPs in transportation).

At first glance, it may seem that tax-exempt financing would always present a more compelling option for public universities, as compared to taxable, private sector financing models that incur a higher cost of capital. However this analysis ignores some important points.

First, financing costs usually only account for roughly 25 percent of total project costs, and a 1-2 percent differential in tax-exempt versus private costs of capital will only translate to 5 percent of total project cost, leaving 95 percent of the remaining project costs as presenting opportunities for cost savings and other efficiencies brought by PPPs.[23] Further, PPPs can deliver 15 to 30 percent life cycle cost savings for operations and maintenance and can be used to deliver projects significantly faster than under typical public procurement methods.[24] Oftentimes, thorough project analysis will reveal that the benefits of PPPs far outweigh the limited benefits of tax-exempt public financing.

A recent sampling of innovative PPP arrangements in higher education include:

- The University of California-Davis is using a PPP to deliver its West Village project, a 130-acre project that will provide 343 housing units, 1,980 student beds in apartment housing and 42,500 square feet of retail in a mixed-use development. The university will receive income from both the lease payments for apartments and retail uses and payments by resident faculty in the housing units. Using a PPP allowed the university to leverage its small, direct investment of $11 million into a viable $280 million project.[25]

- In March 2010, Florida Atlantic University (FAU) announced a PPP for a new $123 million, on-campus student housing community on its Boca Raton campus. Under the PPP, Balfour Beatty Campus Solutions and Capstone Development Corporation will oversee the development and management of the 1,216-bed student residential project, Innovation Village Apartments, which will also include mixed retail and office uses. Though this project is being financed through a combination of tax-exempt and Build America bonds issued by The FAU Finance Corporation, partner Balfour Beatty Capital has invested in the project by purchasing $3.4 million of tax-exempt bonds.

- Northern Illinois University's board of trustees approved a plan in early 2010 to develop a new, state-of-the art on-campus housing complex to attract more students and have agreed to pursue a PPP model to deliver it. Under the plan, a private concessionaire would finance and construct the complex, which would then be managed by the university.

Given these and other experiences from public higher education systems across the country, Nebraska's public universities should evaluate all planned capital projects—and all future projects—regarding their potential viability for a PPP financing model to realize better value for money in the delivery of facilities and infrastructure over traditional procurement methods.

Additional Resources

- Vicki E. Murray, Ph.D., 10 Questions State Legislators Should Ask About Higher Education, American Legislative Exchange Council, http://www.alec.org/am/pdf/education/10questions/10Questions_full.pdf.
- Vicki E. Murray, Ph.D., *Cash for College: Bringing Free-market Reform to Higher Education*, Goldwater Institute Policy Report #208, March 2006, http://www.goldwaterinstitute.org/article/1648
- Bay Area Council Economic Institute, *Public-Private Partnerships: Alternative Procurement Methods for Campus Development in the University of California System*, June 2010.
- Leonard Gilroy, Laura J. Davis, Sarah F. Anzia and Geoffrey Segal, *Privatizing University Housing*, Reason Foundation Policy Study No. 356, January 2007, http://reason.org/news/show/privatizing-university-housing.

V. Conclusions

The ongoing economic downturn has made life difficult for taxpayer, legislator, and bureaucrat alike. Those in the private sector have been adjusting to the new and ever-changing economic conditions for the past two and a half years, but government budgets, shielded somewhat from economic conditions (for a time, anyway) by political forces and interests, have been slower to adjust. This, accompanied by a lack of prudent fiscal planning and the apparent belief that the boom times would never end, has led states to spend beyond their means and made the ultimate correction more painful in the long run. We are now at that point of reckoning.

In order to determine where the money should go in the future, it is instructive to see where it has come from, and gone to, in the recent past. According to U.S. Census Bureau data, Nebraska has not been as profligate as some of its neighbors, but neither has it been as thrifty as others. As such, it has not been able to escape, or more greatly soften, the blow of the effects of the recession.

Between 2002 and 2008, revenue actually increased significantly. Nebraska's total revenue increased 40 percent, a little lower than the aggregate increase of all states (48 percent) but squarely in the middle range of its bordering states. Its total tax revenue increased 41 percent, slightly below the aggregate increase of all states (46 percent) but ahead of all neighboring states except Wyoming and Kansas in terms of both the increase in revenue and 2008 revenue per capita.

During this period, Nebraska's total state spending increased 29 percent, slightly lower than the aggregate increase of all states and about the same as most of its surrounding states. It also placed in the middle of the pack of neighboring states in terms of 2008 total spending per capita. Direct expenditures, over which the legislature has the greatest amount of control, jumped 37 percent, about the same as the aggregate spending increase for all states (38 percent), but greater than the increase of most neighboring states (excepting Kansas's 42 percent increase and Wyoming's 71 percent increase).

Drilling down deeper into the state's spending, between 2002 and 2008, Nebraska increased spending the most in the hospitals (40 percent), education (33 percent), and corrections (28 percent) categories. The state was remarkably successful at keeping down its debt service costs, however. Interest on debt spending dropped 2 percent during the period and ranked 48th per capita in 2008, lower than all surrounding states. Spending also declined in one other category during the period: parks and recreation (-10 percent).

There are a number of budget reforms Nebraska should implement in order to address its budget crunch going forward. They include:

- Adopting an effective state spending/revenue limit,
- Employing a Budgeting for Outcomes budgeting process in order to increase efficiency and the transparency of budget priority trade-off decisions,
- Adopting a sunset review process for state agencies, boards, and commissions,
- Utilizing non-partisan revenue forecasts and an independent certification of the budget,
- Creating a statewide real property inventory and mining the balance sheet for asset sale and lease opportunities,
- Expanding the use of privatization and competitive contracting,
- Establishing a State Privatization and Efficiency Council to better manage privatization and government efficiency initiatives,
- Implementing public-private partnerships to finance transportation infrastructure,
- Enacting school empowerment and student-based budgeting reforms, and
- Reinventing Nebraska's higher education system by providing higher education grants directly to students and embracing privatization and public-private partnerships for the financing, construction, operation, and/or maintenance of university services and assets.

By learning the lesson of greater fiscal discipline and implementing the above reforms, Nebraska can keep us on the path of fiscal responsibility. This will lead to a quicker economic recovery and a better quality of life for Nebraska's citizens.

VI. Appendix A – Nebraska Spending and Revenue Summary, 2002-2008

Spending

(Spending and revenue numbers are in thousands of dollars)

	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002-2008 Increase/ Decrease	2002-2008 Increase/ Decrease Rank
Corrections	176,533	40	219,278	40	0	24%	33
Education	2,191,323	35	2,909,668	38	-3	33%	40
Government Administration	164,848	41	204,921	43	-2	24%	31
Health	363,668	13	415,172	16	-3	14%	36
Highways	526,457	29	631,028	27	-1	20%	26
Hospitals	171,234	26	239,294	26	0	40%	25
Interest on Debt	109,795	41	107,999	48	-7	-2%	47
Natural Resources	165,308	12	180,968	16	-4	9%	35
Parks and Recreation	32,191	27	28,868	34	-7	-10%	39
Police Protection	66,750	24	84,698	19	+5	27%	27
Public Welfare	1,661,269	22	2,099,052	33	-11	26%	39
Salaries and Wages	1,835,657	4	2,076,389	8	-4	13%	43
General Spending	6,219,242	33	8,024,395	37	-4	29%	38
Total Spending	6,536,970	40	8,443,129	41	-1	29%	41

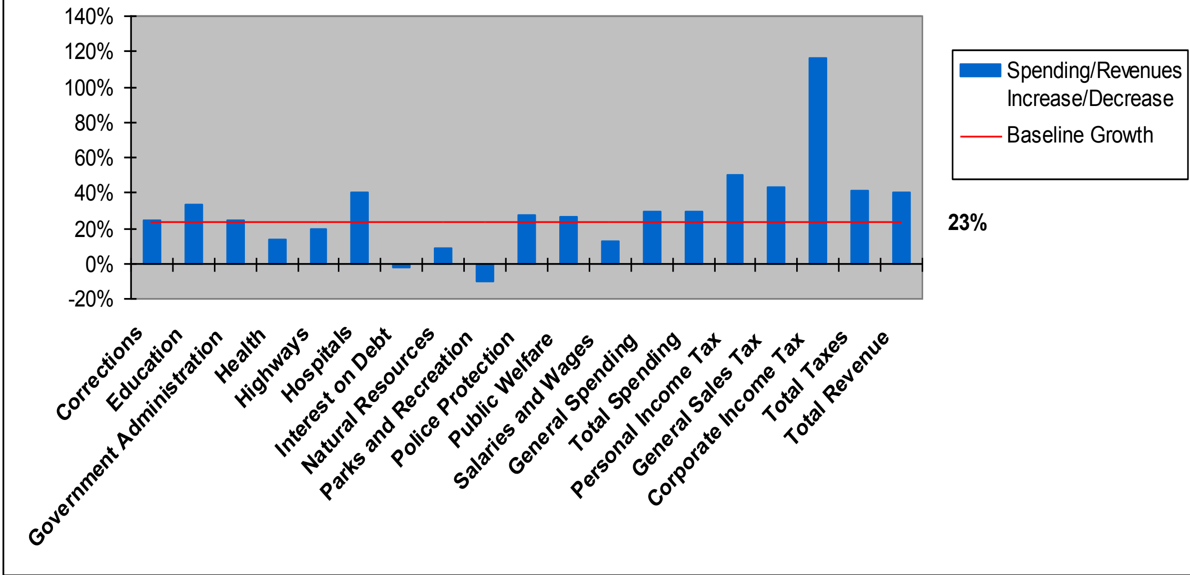
Taxes
(Spending and revenue numbers are in thousands of dollars)

	2002	2002 Per Capita Rank	2008	2008 Per Capita Rank	Difference in Rank	2002-2008 Increase/ Decrease	2002-2008 Increase/ Decrease Rank
Personal Income Tax[1]	1,153,444	21	1,726,145	19	+2	50%	22
General Sales Tax[2]	1,069,185	23	1,534,134	19	+4	43%	17
Corporate Income Tax[3]	107,628	29	232,852	28	+1	116%	24
Total Taxes	2,992,522	30	4,228,800	29	+1	41%	31
Total Revenue	6,001,930	36	8,387,599	35	+1	40%	33

[1] Personal income tax per capita rankings are out of 43 since seven states do not collect personal income taxes.
[2] General sales tax per capita rankings are out of 45 since five states do not collect general sales taxes.
[3] Corporate income tax per capita rankings are out of 46 since four states do not collect corporate income taxes.

Comparison to Baseline Growth

One sound rule of thumb is that government expenditures should not increase more than the combined increase in population and inflation growth. This allows the government to maintain service levels and accommodate increased costs due to an expanding population and rises in the cost of living. For the 2002-2008 period, the Consumer Price Index, used to measure inflation, increased approximately 20 percent and Nebraska's population increased by three percent. This yields a "baseline" growth of 23 percent for the period. The figure below compares the difference in Nebraska's expenditures and revenue for the period to this baseline for 14 spending and five revenue categories.


Increase/Decrease in Spending and Revenues Compared to Baseline, 2002-2008
140%
120%
100%
80%
60%
40%
20%
0%
-20%
Spending/Revenues Increase/Decrease
Baseline Growth
23%
Corrections
Education
Government Administration
Health
Highways
Hospitals
Interest on Debt
Natural Resources
Parks and Recreation
Police Protection
Public Welfare
Salaries and Wages
General Spending
Total Spending
Personal Income Tax
General Sales Tax
Corporate Income Tax
Total Taxes
Total Revenue

VII. About the Authors

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Gilroy has a diversified background in policy research and implementation, with particular emphases on public-private partnerships, competition, government efficiency, transparency, accountability, and government performance. Gilroy has worked closely with legislators and elected officials in Texas, Arizona, Louisiana, Utah, Virginia, California, and several other states in efforts to design and implement market-based policy approaches, improve government performance, enhance accountability in government programs, and reduce government spending.

Gilroy is the editor of the well-respected newsletter on privatization, *Privatization Watch*, and is the editor of the widely read *Annual Privatization Report*, which examines trends and chronicles the experiences of local, state and federal governments in bringing competition to public services.

His articles have been featured in such leading publications as *The Wall Street Journal*, *Los Angeles Times*, *New York Post*, *The Weekly Standard*, *Washington Times*, *Houston Chronicle*, *Atlanta Journal-Constitution*, *Arizona Republic*, *San Diego Union-Tribune*, *San Francisco Examiner*, *Philadelphia Inquirer*, and *The Salt Lake Tribune*.

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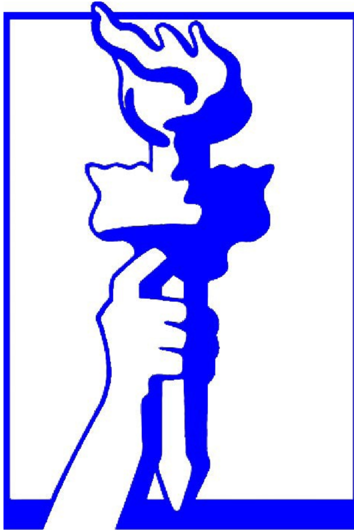
Lisa Snell is the director of education and child welfare at Reason Foundation, where she oversees research on education and child welfare issues. She has authored policy studies on school finance and weighted student funding, universal preschool, school violence, charter schools, and child advocacy centers. Her most recent study is the *Weighted Student Formula Yearbook 2009*.

Lisa is a frequent contributor to *Reason* magazine. Her commentary has also appeared in *Education Week*, *Edutopia*, *The Wall Street Journal, USA Today*, *San Francisco Chronicle, The Orange County Register*, *Los Angeles Times*, and numerous other publications. Lisa is also an advisory board member to the National Quality Improvement Center for the Children's Bureau, works on the charter school accreditation team for the American Academy for Liberal Education, and is a board member for the California Virtual Academy in San Diego and Los Angeles.

Before joining Reason Foundation, Ms. Snell taught public speaking and argumentation courses at California State University, Fullerton. She earned a Master of Arts in communication from California State University, Fullerton.



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VIII. Endnotes

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