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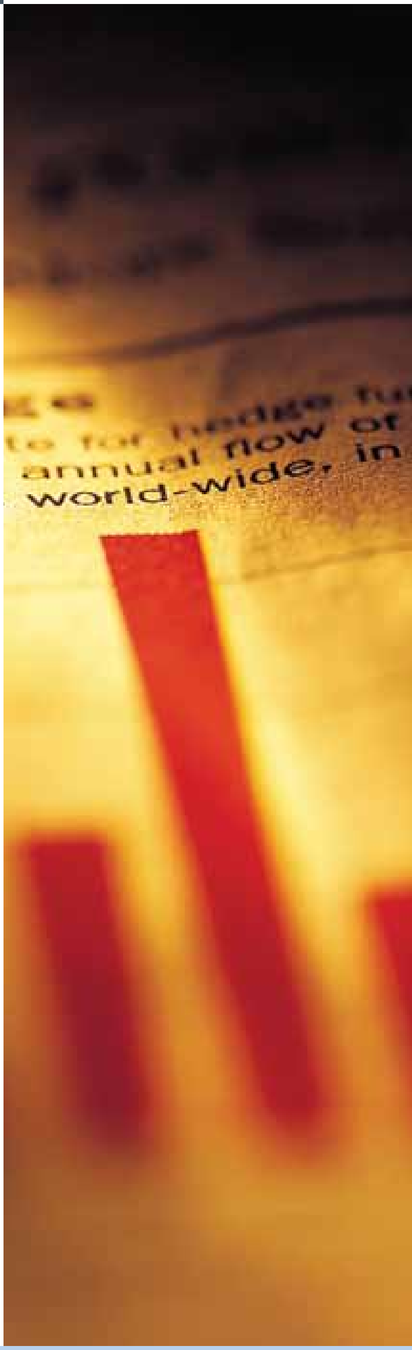
policy STUDY

Platte INSTITUTE for economic research

Nebraska's Spending Habits:

Are We Frugal or Frivolous?



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

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

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

Intro

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

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

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

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

» Higher Education

» K-12 Education

» Public Welfare

» Highways

» Public Safety

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

Note: This is the Executive Summary. To see the complete study, please go to www.platteinstitute.org.

Executive Summary

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

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

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

Overall spending:

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

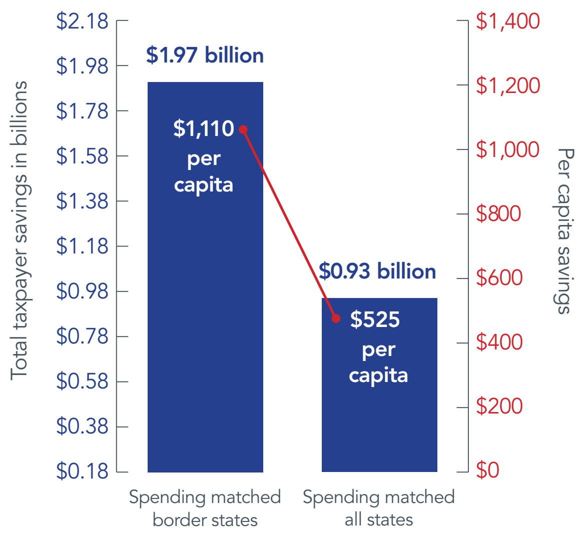
» Between 1993 and 2006, state and local spending per capita increased by 82 percent for Nebraska, by 83 percent for all U.S. states, and by 77 percent for states bordering Nebraska.[3]

» In 2006, state and local spending as a percent of GSP[4] was 21.5 percent for Nebraska, 20.3 percent for all U.S. states, and 18.7 percent for Nebraska's neighbors.

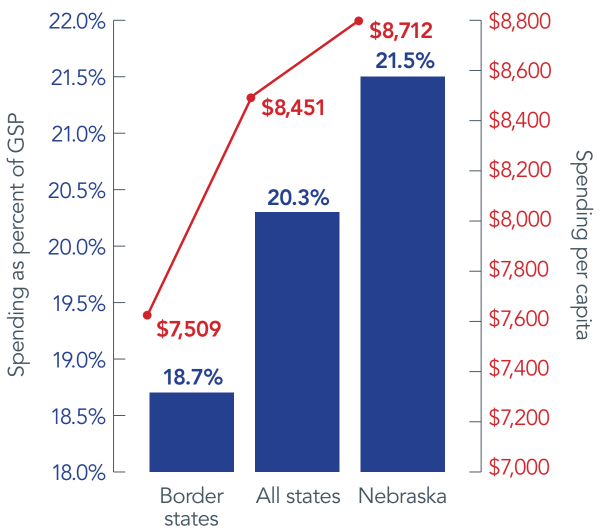
» In 2006, compared to bordering states, Nebraska spent a greater share of its GSP on utilities,[5] higher education, K-12 education and public welfare but a smaller proportion on public safety.

» Six of the thirteen high performing states, in terms of income and employment, did not assess an individual income tax on their workers while all of the fourteen low performing states levied an individual income tax on wage earners; thus pointing to the benefits of restraining government spending.

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



Overall State & Local Spending, 2006



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

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

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

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

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

Recommendations

Overall spending:

» It is recommended that Nebraska limit the growth in government spending to the rate of inflation plus the rate of population growth until Nebraska's spending, as a share of GSP, matches that of its neighbors. After that, spending should match the growth in the state's personal income.

» It is recommended that Nebraska adopt the Texas *Where the Money Goes* system so that individuals and businesses can better determine the effectiveness of government spending.

» State and local government at all levels should establish a task force for their jurisdiction to review opportunities to privatize publicly provided recreation and entertainment amenities including recreation facilities and youth recreation leagues, music, theater, sports venues and park lodges.

» Between 1996 and 2007, state aid to local subdivisions to support homestead exemptions advanced by an annual compound growth rate of 8.0 percent. Future growth should not exceed the rate of inflation plus population growth.

» Growth in state aid to K-12 education should not exceed the rate of inflation plus the rate of growth in the K-12 student population in the state.

Higher education spending:

» Nebraska outspent both the U.S. and its neighbors in terms of higher education spending per capita. In terms of per capita *growth*, Nebraska's higher education spending increased at a rate similar to the U.S., but at a rate greater than that of the states surrounding it.

» In terms of higher education spending as a share of GSP, Nebraska has consistently outspent both its surrounding states and the U.S.

» In 2006, Nebraska appropriations per full-time equivalent (FTE) college student were $6,999. This compares to $6,325 for the average U.S. state, or 10.7 percent less, and $5,801 for Nebraska's bordering states, or 20.7 percent less. Tuition charges were a much smaller percentage of total higher education revenues for Nebraska than for its neighbors or for the average U.S. state.

» In terms of National Science Foundation grants per FTE, compared to its neighbors, Nebraska ranked fifth, with Kansas in sixth place, and Missouri in seventh or last place.

» In 2007, Nebraska would have saved a total of more than $193 million, the equivalent of $109 per capita, if its higher education spending as a percent of GSP matched that of bordering states, and more than $350 million, or $197 per capita, if it equaled that of the U.S.

Recommendations

Higher education spending:

» Reduce Nebraska's appropriations per FTE for higher education to the current regional average (region includes Nebraska and its six neighbors).

» Increase its tuition per FTE for higher education to the average of Nebraska and its neighbors.

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

Recommendations

K-12 education spending:

» Nebraska has been raising the amount it spends per K-12 student at a greater rate than either its neighbors or the U.S. While Nebraska's bordering states boosted their combined per-student spending by 32.8 percent between 1999 and 2006 and the U.S. by 32.7 percent, Nebraska's climbed by 34.4 percent.

» Data indicates that Nebraska spends more on K-12 education due to the state's lower student to teacher ratios and to the state's much lower average number of students per school district.

» Savings to Nebraska is possible if it were to reduce its K-12 education spending per student to the level of its neighbors. Data indicates that if Nebraska spent on a per student basis the same as its neighbors, the state would have saved $42.6 million in 2006 alone.

K-12 education spending:

» Based on this statistical model of all U.S. school districts and 2006 data, Nebraska's spending on K-12 education per year would decline by 1.1 percent, or over $31 million, if there were one school district per county instead of the current 254 school districts. Likewise, Nebraska would have saved almost $102 million, or 3.7 percent in 2006, if the state's student-teacher ratio rose from its current level of 13.83 to the national median student-teacher ratio of 15.11.[6]

» Nebraska should grant new hires the option to choose a defined contribution plan (DC), which non-career employees may prefer over the traditional defined benefit plan (DB). This would reduce the cost of retirement funding for employees. Pay and benefits for teachers and administrators are heavily backloaded, penalizing non-career teachers that leave the education industry. Augenblick and Associates, based on an analysis of the retirement systems of Arkansas, Idaho, Indiana, Maryland, Mississippi, Utah and West Virginia, estimated the savings by moving from a defined benefit (DB) to a defined contribution (DC) plan. The researchers concluded that states could save as much as 3 percent of a teacher's yearly salary by adopting a DC plan. This would mean a yearly savings for Nebraska of roughly $33 million annually just for instruction personnel.[7]

» School district data for 2006 shows that the state's low enrollment and high enrollment school districts have the highest cost per pupil. It is estimated that school district costs would decrease by $556,000 by increasing Nebraska school district enrollment from 1,000 to 2,000 pupils. At the other end of the spectrum, it is estimated that school district costs would increase by $438,000 by increasing enrollment from 40,000 to 41,000 pupils.

» In order to bring Nebraska's K-12 spending in-line with its geographic neighbors, the state should limit the growth in state aid per student for K-12 education to the rate of inflation plus student enrollment growth.

» The Nebraska Unicameral could assist K-12 education in the state by adopting a three-year pilot program that would permit local districts to contract with private schools or other nearby public school districts to educate some of their students.[8]

» The State of Nebraska should adopt the "65 Cent Solution." Across the nation, education reformers are pushing the program entitled First Class Education. This program requires that at least 65 cents of every dollar in a school district's operational budget goes into the classroom. Adopting this solution would increase direct instruction from $1.096 billion to $1.133 billion and reduce administration funding from $130.2 million to $56.1 million. This would create a yearly savings of $37.1 million.

» Nebraska should reform rules for calculation of highest average salary to reduce pension spiking practice on the part of K-12 teachers and administrators.

Public welfare spending:

» As expected, high economic performing states spent a smaller share of their government expenditures on education and public welfare, while low performing states focused more of their spending in both areas.[9]

» Between 1993 and 2006, Nebraska's growth of 120 percent in public welfare spending has been slightly less than that of its neighboring states' 123 percent, but well over the 106 percent of the U.S.

» As a percent of GSP, Nebraska's public welfare spending was only slightly above that of its border states in the years spanning 1993-1999 and was well below that of the U.S.—but climbed above surrounding states and the U.S. between 2000 and 2006.

» If Nebraska had spent the same percent of its GSP in 2007 on public welfare as did the six states on its boundaries, it would have saved $143 per capita that year for a total savings of $252,935,931. If it had spent at the level of the U.S., it would have cost Nebraska $122,645,633 more in total in 2007, or $69 per capita.

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

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

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

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

Recommendations

Public welfare spending:

» Nebraska should attempt to gear Medicaid subsidies to the beneficiary's income and possible health risk. Nebraska should also establish other features, such as cost sharing, to prepare families to transition to private coverage.

» Nebraska should provide a range of Medicaid coverage options such that beneficiaries should not be forced to buy a policy with a government-dictated list of benefits and coverage mandates.

» Nebraska should insure that Medicaid beneficiaries have easy access to information about the private and public health insurance coverage options that are available to them. Once the individual is provided more consumer-friendly information and financial resources, they can more easily select the insurance that best meets their needs.[10]

» Nebraska should attempt to expand health care cost information by encouraging health care providers to adopt programs such as Alegent Health's "My Cost" tool. This on-line tool, if implemented at medical facilities across the state, would produce significant savings for the state by supplying a much higher degree of cost transparency. By providing financial incentives for Medicaid recipients, those covered would be provided with a list of prices for frequently purchased services, in addition to information on financial assistance programs for cost-prohibitive services. Over the past two years, "My Cost" has provided 37,000 consumers with health price information. The tool could query payers for eligibility and benefit information for a given Medicaid patient. To date, seven payers are participating in the program and Alegent Health expects many more in the months to come. Tommy Thompson, former secretary of the U.S. Department of Health and Human Services, said of the application, "These are the kinds of breakthroughs that are going to allow transparency to come front and center."

» The Beatrice Development Center should be privatized. Total savings to the state for Mosaic, a private, religious affiliated organization, taking over the facility would range between $4.2 million and $7.3 million depending on the configuration of the care facility.[11]

» There are several states testing new technologies that reduce staffing costs and are trying to get at the issue of providing what an individual needs versus what they want. Indiana is currently testing *REST ASSURED*, a project that maximizes the use of two-way video systems that can support those who need minimal support but cannot live completely independent in the community. Thus far programs like this are showing increased consumer satisfaction with lower cost. Nebraska should examine the potential of such a system.

» The central key to solving the cost issue for Nebraska's Medicaid system is how the Medicaid state plan is written paired with the inefficiencies of current case management systems. Most case management systems are coordinated by state employees who see everything as an entitlement for their clients and as a result, through individual care plans, drive costs higher for the provider. In other words, the case management systems in most states, and particularly in Nebraska, need significant reform, while disempowering them in a way that does not drive up costs.

» It is contended that the key may rest with a consistent and equitable assessment for each individual and that funding should be tied to those needs and not be based on any group average. This may seem simple but when case managers play such a key role in driving costs we should be looking at this recommendation closely.

» State Medicaid policy should encourage more flexible supports and regulations that are necessary and valued by the consumer.

» It is recommended that particular attention should be paid to the elimination of rules and regulations that are tied to a facility or license rather than basic health and safety assurances and individual needs; additionally administrative requirements should be reduced.

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

[10] http://www.bipps.org/ARTICLE.ASP?ID=1040

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

Recommendations

Highway spending:

» In total spending growth on highways and in spending growth per highway mile, Nebraska trailed both its bordering states and the U.S. between 1993 and 2006.

» From a longitudinal standpoint, Nebraska, its neighbors, and the U.S. all reduced their spending as a percent of GSP on highways between 1993 and 2006.

» Nebraska could have saved a total of $109,616,983, or $62 per capita, in 2007 if it had spent only the percentage of its GSP in 2007 its adjoining states did; if it had spent as little as the U.S. of its GSP, it would have realized a $320,620,061, or $181 per capita.

» The top economic performing states spent the same share of their GSP on highways (1.2 percent) as the bottom performing states (1.2 percent) in 2006. Moreover, the pullback in highway spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states (-14.3 percent) than low performing states (-7.4 percent).

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

Recommendations

Highway spending:

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

Recommendations

Public safety spending:

» Nebraska has grown its public safety spending at a much greater rate between 1993 and 2006 than its border states or the U.S.

» Per capita, Nebraska consistently spends slightly less than its neighboring states and substantially less than the U.S. on public safety.

» Both the U.S. and Nebraska's border states spend a greater percent of their GSP in public safety than does Nebraska; therefore were Nebraska to match its expenditure on public safety to that of either the states that surround it or the U.S., greater expense would result to Nebraska taxpayers.

» The top economic performing states spent a much larger share of their GSP on public safety than the bottom performing states. Moreover, the pullback in public safety spending as a proportion of GSP between 1999 and 2006 was greater for the high performing group of states than low performing states.

Public safety spending:

» The state should evaluate and potentially remove early retirement subsidies for public safety employees.

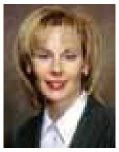
» Nebraska should reform rules for calculation of highest average salary to reduce pension spiking practice on the part of public safety employees.

» Nebraska should grant new hires the option to choose a defined contribution plan, which non-career employees may prefer over the traditional defined benefit plan. This would reduce the cost of retirement funding for employees. Pay and benefits for public safety employees is heavily backloaded, penalizing non-career employees that leave the industry.

Leading the Way


John McCollister


J. Peter Ricketts


Gail Werner-Robertson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A non-profit foundation, the Platte Institute relies on the resources and innovative thinking of individuals who share a commitment to liberty and the best possible quality of life for Nebraskans.

Executive Director

John McCollister
He served five terms on the publically elected Metropolitan Utilities District Board of Directors and recently capped a 35 year career with McCollister & Co. John has been involved with the Scouting program for more than 40 years and currently serves on the Executive Board of the Mid-America Council. He also is Board Chair for the American Diabetes Association–Nebraska– Iowa Chapter.

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Michael Groene
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Warren Arganbright
Director and a noted north central Nebraska lawyer and water resources activist.

Our Mission

Advance public policy alternatives that foster limited government, personal responsibility and free enterprise in Nebraska. By conducting vital research and publishing timely reports, briefings, and other material, the Platte Institute will assist policy makers, the media and the general public in gaining insight to time-proven free market ideas.

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