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Pro-Growth Strategy for Nebraska

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Executive Summary

How can we develop a rapidly growing economy in Nebraska, and otherwise make the state more attractive to families? The answer is by building an economy rooted in an increasingly competitive business environment. This issue is the subject of the current research report. Specifically, this report examines the current spending, taxation, and economic development programs in Nebraska from the perspective of economic growth. The following proposals for Nebraska are based on this analysis, economic theory, and best practices of other states. These strategies are designed to make the state even more attractive to businesses and households. This is accomplished by suggesting effective catalysts for economic growth, and exploring potential for reducing the regulatory burden in the state.

As Nebraska has shown substantial discipline in public spending in recent years, tax cuts are likely as tax revenues to recover in the years to come. As a result, the current report focuses less on tax cut recommendations and more on limiting the regulatory burden in the state and other types of recommendations to improve growth. Specific recommendations to reduce regulation and make other improvements to Nebraska's competitive position are outlined below.

1) Introduce a Sunset and Re-authorization System for Regulations

The State of Nebraska should establish a panel to examine all Nebraska regulations and introduce a sunset date on many of those regulations. The purpose of the sunset provisions would not necessarily be to eliminate those regulations but to provide an opportunity to actively consider whether the regulations should be re-authorized. Further, re-authorized and most new regulations should be provided with a new sunset date. As part of its sunset and re-authorization strategy, state government in Nebraska should set a goal of decreasing the total per capita cost of regulation by a cumulative 10 percent per decade. Finally, current regulations should be placed on a staggered schedule for re-authorization in order to limit regulatory uncertainty engendered by a sunset and re-authorization process.

2) Introduce a Sunset and Re-authorization System for Industry-Based Special Taxes and Tax Exemptions

The State of Nebraska should establish a similar sunset and re-authorization process for all tax exemptions or credits that benefit a particular industry or particular group of industries in the state. This process should also be expanded to include all special taxes that fall on a particular industry or particular groups of industries in the state.[1]

3) Privatization Over Time of State and Local Government Programs and Assets Involved in Entertainment and Recreation

As an initial step, privatization efforts in Nebraska should focus on privatizing publically-owned or operated entertainment and recreation facilities and programs. The greatest opportunities would exist at the local level, with the privatization of local parks, stadiums, arenas, golf courses, swimming pools, and ball fields. However, there would be privatization opportunities for state government. In particular, the State of Nebraska should over time consider the sale of state parks and recreation areas to private operators. If feasible, covenants could be applied to the development of the sold land to maximize the likelihood of its continued use as a park or recreation area. However, operators should be given discretion as to prices and the service mix provided. The state should proceed with the policy over time with a modest pace of sales to observe market reactions, patterns in operation, and to refine covenant agreements. Initial sales should include a mix of parks with smaller and higher levels of attendance to examine the efficacy of the program in different situations. For the benefit of local taxpayers, efforts should be made to sell parkland to for-profit agencies that are subject to property taxes, when feasible.

4) Assess Agricultural Property at the Same Fair Market Value as Residential and Commercial Property

Property tax ***rates*** could fall substantially in many Nebraska counties if agricultural property was assessed at the same near-market rate as other types of property in Nebraska. If the policy was pursued in a revenue-neutral manner, it would yield a much lower property tax rate in the state's rural counties, and effective property tax rates would fall for non-agricultural commercial, industrial, and residential taxpayers. The results could be a substantial improvement in economic growth, provided that state government ensures that rural counties are not penalized for lowering their property tax rates. In particular, levels of state education support should not be influenced by such decisions of county governments to broaden their property tax base and lower rates.

5) Support Community Marketing Programs

The State of Nebraska should support community marketing efforts to grow local population and thereby expand state economic growth. State policy can best contribute to this effort by substantially expanding funding for the Building Entrepreneurial Communities Act (BECA). It is further recommended that the State of Nebraska work with researchers at the University of Nebraska-Lincoln in developing community marketing efforts, given that a number of leading national researchers on community marketing are located at UNL.

6) Carefully Design any State and Local Immigration Policies

While the United States struggles with high levels of illegal immigration, ***legal*** international migration is an important source of labor supply growth in many states, including Nebraska. State and local immigration policies can help reduce illegal immigration into the Unites States but those policies will be most beneficial if designed to discourage illegal immigration without excessively discouraging legal immigration. In designing such a policy, it is likely that institutions and people that work on law enforcement issues would be most sensitive to the relevant trade-offs. Therefore, it is recommended that any new state or local regulations on enforcement of immigration laws should be designed with substantial input from state and/or local police associations and their rank and file membership. It is also recommended that any new regulations have substantial support from police organizations and their members.

7) Reduce Annexation Powers and Regulation and Fees on Construction Activity

State of Nebraska annexation statutes should be modified so that a city of first class cannot annex a city of second class without the consent of the city of second class. For local governments, new developments within designated developable areas of a city or its urban services area should not be charged impact fees or assessed other similar charges as long as that planned development meets a city's goals for density of development.

8) Expand Eligibility for Nebraska Advantage Incentives

The Nebraska Advantage Act should be modified to drop any employment creation requirements associated with each eligibility tier. The State of Nebraska also should make a large fund available at the discretion of state political and economic development leaders to apply to the most beneficial economic development projects. The most beneficial projects are defined as the most important economic development projects and/or the projects where additional incentive finds are most critical to ensuring that the key investment takes place.

9) Reduce Health Care Mandates and Raise Deductibles and Co-Payments

The State of Nebraska should work with its employees to alter health insurance programs for public employees to include significantly larger deductibles and co-payments. Such payments could be pursued as a cost saving mechanism but the primary goal would be to reform health insurance. Therefore, employees might be compensated for higher deductibles with faster wage growth, or via other approaches. It is further recommended that the State of Nebraska reduce mandates for health insurance coverage.

10) Allow Charter Schools in Nebraska

Nebraska should offer a charter school option for public schools and join the 40 states that already offer such an option. However, it is not recommended that the State of Nebraska provide revolving loan funds or other such financial incentives to help with the foundation of charter schools. Private sector donors should provide these incentives.

I. Introduction

Faster economic growth is always a top priority. That is because faster economic growth is the most reliable and effective way to raise the standard of living throughout the economy. However, the recent economic recession has heightened concerns about economic growth in Nebraska and throughout the nation. In particular, states must accelerate growth over the next decade to fully employ labor and capital resources in the economy.

How can we develop a rapidly growing economy in Nebraska? Most economists agree that the answer lies in creating a market-oriented economy with a limited government, lower taxes, and less regulations. This current research report examines the level of taxation and government spending in Nebraska as well as the state's

regulatory burden. Trends and levels for Nebraska are compared to other states. We pay special attention to whether Nebraska has as much capacity to "export" its tax burden as other states, and how Nebraska spending breaks down into income redistribution, spending on amenities, and spending on potentially productive government services. Finally, the issue of economic development incentives will be examined from an economics perspective. Such information is valuable in formulating strategies to improve economic growth in the State of Nebraska. As a result, in the last section of this report we provide ten recommendations to promote the state's economic growth by reducing the regulatory burden, attracting population, and limiting government.

These recommendations are meant to enhance ongoing efforts to encourage economic growth in Nebraska. Economic growth has already been encouraged in a number of ways in recent years. The State of Nebraska expanded its economic incentive programs through the Nebraska Advantage program several years ago and also pursued a series of tax cuts. More recently, the University of Nebraska-Lincoln established its Nebraska Innovation Campus and the State of Nebraska closed a large budget gap by cutting spending rather than by raising taxes. Many local governments have done the same. These initiatives also encourage economic growth.

This report is organized as follows: Section II examines the tax and regulatory burden in Nebraska, Section III examines government spending, Section IV addresses economic development policy, and Section V provides recommendations.

II. A Comparison of Nebraska Taxes and Regulations

The economic climate, including the climate for both households and businesses, is the key determinant of the rate of economic growth in states. The underlying economic climate in turn is heavily influenced by the state and local tax and regulatory burden. This section examines both the tax and regulatory burden within Nebraska.

A. Tax Burden

A variety of sources compare the tax burden of states. The most prominent sources for comparison are the American Legislative Exchange Council and the Tax Foundation. Analysts also can directly make comparisons using data from the U.S. Census Bureau. All three sources are used in the analysis that follows.

The Tax Foundation provides an innovative measure of the effective tax burden of residents in a state. Specifically, the Tax Foundation measures tax burden based on taxes paid by residents either in their own state or in other states. This is done because state residents may pay taxes in another state as shoppers or tourists or because they import items and the price of these imported items includes taxes charged in that other state. This Tax Foundation measure is realistic because it takes into account the taxes residents of different states pay and incorporates the fact that we are all influenced not only by the tax policy of our own state but also by the tax policy of other states.

The Tax Foundation measures this effective tax burden either on a per person (per capita) basis or as a share of income. There are advantages in either approach. It is useful to compare taxes on a per-capita basis because it directly compares the amount of taxes paid in each state. It is also helpful to report results on a per-dollar of income basis because it is a straightforward method to interpret taxes as a burden on state income. In Table 1, the Tax Foundation estimates of effective taxes rates are reported both as a share of income and on a per capita basis. Per capita tax payments were converted to real (inflation adjusted) 2009 dollars in order to foster comparisons over time.

The down side of this Tax Foundation measure, however, is that by definition it is not a perfect measure of home state tax policy. As a result, we also will consider alternative measures that take into account the tax payments in each state.

Table 1 below shows Nebraska's tax burden rank over the 1977 to 2009 period according to the Tax Foundation's state and local tax burden measure. Again, this measure reflects both taxes paid to the home state and taxes paid to other states. Unfortunately, Nebraska's share of taxes rank in the first and second quartile, vacillating between a relatively high tax burden as a share of income (values in the 10-20 range with 1=highest tax burden) and a median tax burden as a share of income (rank near 25). On a per capita basis (given the state's slightly lower per capita income), Nebraska has a lower tax burden throughout the period examined, with one exception in 2003.

Table 1: Nebraska Household Tax Burden 1977 to 2009 Using Tax Foundation Measure

	State and Local Per Capita Taxes Paid						Key Nebraska Tax Rates	
		As a Share of Income		Real Per Capita (2009$)			State Sales Tax Rate	Top Income Tax Rate
Year	Nebraska Percentage	United States	Nebraska Rank	Nebraska	United States	Gap		
1977	10.8%	10.4%	14	$2,768	$2,842	-74	3.5%	18% of Federal
1980	9.8%	9.4%	12	$2,486	$2,564	-78	3.0%	17% of Federal
1985	9.3%	9.7%	24	$2,609	$2,948	-339	3.5%	20% of Federal
1990	9.5%	9.8%	26	$2,916	$3,305	-389	5.0%	6.41%
1995	10.0%	10.1%	20	$3,230	$3,500	-270	5.0%	6.99%
1996	9.7%	9.9%	23	$3,293	$3,498	-205	5.0%	6.99%
1997	9.8%	9.7%	19	$3,427	$3,572	-146	5.0%	6.68%
1998	9.5%	9.6%	23	$3,421	$3,699	-278	4.75%	6.68%
1999	9.1%	9.4%	27	$3,408	$3,770	-362	4.75%	6.68%
2000	9.2%	9.4%	22	$3,518	$3,855	-338	5.0%	6.68%
2001	9.4%	9.4%	19	$3,571	$3,876	-305	5.0%	6.68%
2002	9.6%	9.5%	17	$3,585	$3,763	-178	5.0%	6.68%
2003	10.0%	9.6%	11	**$3,797**	**$3,793**	**3**	5.5%	6.84%
2004	9.9%	9.6%	12	$3,902	$3,936	-34	5.5%	6.84%
2005	9.9%	9.6%	14	$3,978	$4,101	-123	5.5%	6.84%
2006	10.0%	9.7%	16	$4,069	$4,275	-206	5.5%	6.84%
2007	9.9%	9.8%	18	$4,116	$4,418	-302	5.5%	6.84%
2008	9.7%	9.9%	21	$4,051	$4,368	-317	5.5%	6.84%
2009	9.8%	9.8%	15	$3,960	$4,160	-200	5.5%	6.84%

Source: The Tax Foundation

Nebraska's relative tax burden declined during the 1980s and then rose in the early 2000s (specifically, beginning in 2003). It is evident that the decline in Nebraska's relative tax burden in the 1980s was not a function of income growth since the pattern is as evident in the per capita statistics. The same can be said of the increase in Nebraska's relative tax burden beginning in 2003.

As noted above, the effective tax burden in a state is a function of both its own tax policy and the tax policy of other states. This is particularly true when considering the relative state and local tax burden in Nebraska versus other states. However, some trends are evident in Table 1. In the late 1980s and early 1990s, it is difficult to determine how tax policy impacted the decline in Nebraska's tax burden, given changes in the basic structure of the state income tax, as is evident in the final column of Table 1. However, it is clear that Nebraska's relative tax burden rose in 2003 with state tax increases around that time. Thus, while a state's Tax Foundation household tax burden measure is a complex combination of tax rates in many states; there is clear evidence that increases or decreases in Nebraska tax rates and coverage can and have influenced the relative tax burden in the state.

It is sometimes argued that Nebraska faces a higher tax burden because many parts of the state are rural with low population density, making it expensive to provide certain services. In Table 2, we evaluate this argument utilizing the Tax Foundation's household tax burden measure.

The Table shows the relative tax burden for Nebraska and neighboring states in 2009, the latest year for which the measure is available. Many of these surrounding states, such as South Dakota, Kansas, and Wyoming, also have significant rural with low population density. The Table also shows the estimated burden every year back to 1995, and selected years previous to that.

The Table shows the state rankings according to tax burden as a share of income where a ranking of 1 indicates the highest household tax burden and a ranking of 50 shows the lowest tax burden. For example, in 2009, New York had a ranking of 1 as the highest burden and Alaska had a ranking of 50.

Table 2: Nebraska Household Tax Burden 1977 to 2009 Using Tax Foundation Measure Comparison with Neighboring States

Taxes Paid as a Share of Income (1=Highest Share)							
Year	**Nebraska**	**Colorado**	**Iowa**	**Kansas**	**Missouri**	**South Dakota**	**Wyoming**
1977	14	21	20	32	35	36	49
1980	12	27	18	32	34	40	50
1985	24	21	17	29	35	44	49
1990	26	25	14	30	35	46	49
1995	20	35	12	23	28	47	49
1996	23	36	19	20	30	47	49
1997	19	35	23	22	30	48	49
1998	23	36	25	20	27	46	49
1999	27	35	30	24	26	47	49
2000	22	36	29	25	32	46	49
2001	19	37	28	23	29	46	49
2002	17	38	27	22	29	47	49
2003	11	41	27	19	28	47	49
2004	12	40	28	19	29	48	49
2005	14	36	31	25	29	48	49
2006	16	39	32	25	30	48	49
2007	18	41	33	25	31	48	49
2008	21	39	32	23	31	48	49
2009	15	39	24	19	34	48	46

Source: The Tax Foundation

Another argument is that Nebraska needs to have higher taxes because the state has few opportunities to "export" taxes through tourism or through oil, natural gas, or other mine production. This could explain why households in South Dakota (with a strong tourism industry) and Wyoming (with a strong tourism and energy industry) are able to enjoy a much lower tax burden. Is this true? A special report called the *Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview* suggests an answer. One section compared the amount of taxes that residents of other states paid to each home state to the amount of taxes that residents of each home state paid to other states. Each measure was converted to a per capita amount based on the number of residents in each state. Estimates were presented for the year 2008.

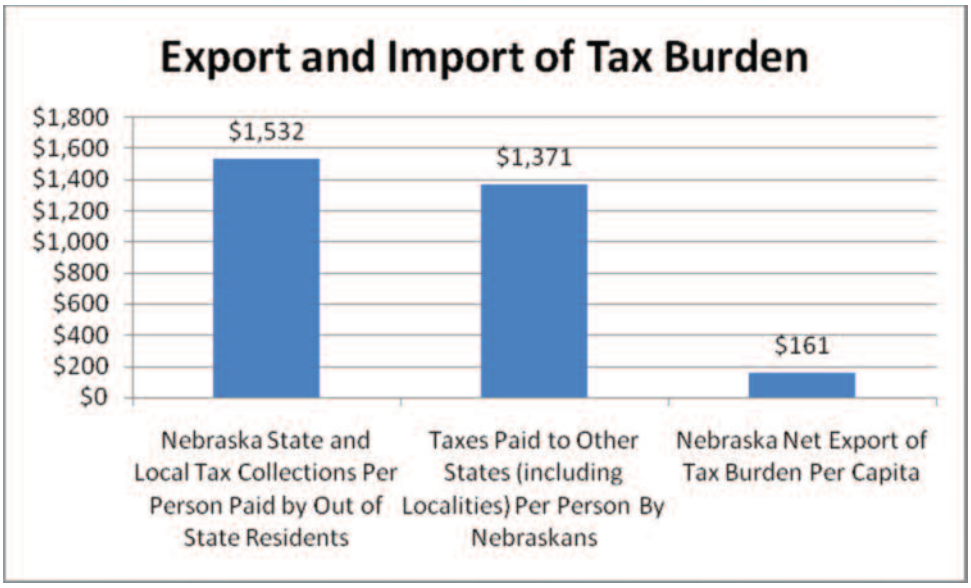
Focusing on 2009, the rankings indicate that Nebraska has an above-median tax burden given a ranking of 15. However, we note that South Dakota, an even more rural state, had a very low tax burden, with a ranking of 48, among the lowest rankings in the country. Wyoming had a ranking of 46, also among the lowest. Kansas, however, was one rural state with a similar ranking to Nebraska at 19. According to this Tax Foundation measure, these results suggest that having a large rural population in a state does not necessitate a higher tax burden.

This point of view is reinforced looking at the trends in the burden over time. We note that Kansas once had a much lower relative tax burden and that the burden jumped between 1990 and 1995. Wyoming has maintained its lower burden over time, as has South Dakota. South Dakota even improved its ranking as time went on. Indeed, the sustained improvements of both Colorado and South Dakota over this period are noteworthy.

Figure 1 shows each measure for the state of Nebraska in 2008. The Figure indicates that residents of other states paid an estimated $1,532 in taxes to state and local government in Nebraska per Nebraska resident (i.e., per capita). In turn, Nebraska residents paid $1,371 per capita of taxes to state and local government in other states. The difference between the two provides a measure of net export of the tax burden. For each person in Nebraska, residents of other states pay $161 more in taxes into Nebraska than residents of Nebraska pay out to other states. Nebraska is therefore a ***net exporter*** of tax burden.

Nebraska is likely an exporter of tax burden because the state is a major producer of goods. The state does not have

Figure 1: Net Export of Tax Burden by Nebraska in 2008



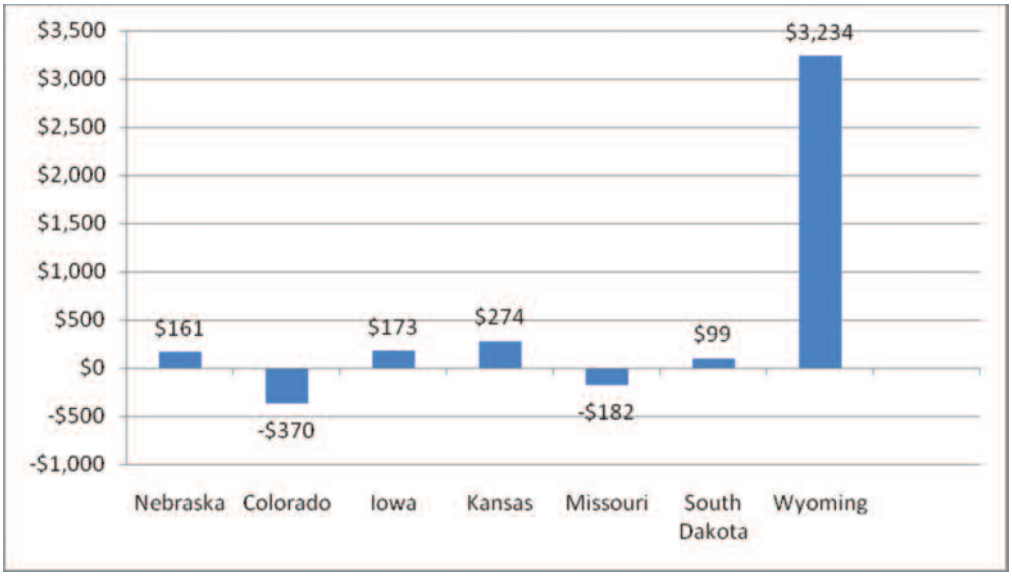
Source: Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview.

a large tourism sector, like Colorado and South Dakota, but the state is able to export taxes through property or other taxes on producers of agricultural and manufactured goods (or other businesses with customers located around the nation and the world). To be sure, these taxes harm the competitiveness of Nebraska agricultural and manufacturing businesses but the taxes do become part of the price of these exported goods (and services), and therefore, the taxes are paid by customers located in other states and countries.

This pattern is confirmed when we examine the net export of tax burden per capita in neighboring states. An interesting pattern emerges regarding which states are net exporters or net importers of tax burden, as is seen in Figure 2. Nebraska, Iowa, Kansas, and South Dakota are all net exporters of tax burden. Further, Nebraska, Iowa, and Kansas each have a larger net export of tax burden per capita than tourism-rich South Dakota. Colorado, another major tourism state, is a large importer of tax burden.

Colorado and Missouri are the two neighboring states that are importers of tax burden; that is, paying more out-of-state taxes than are brought in from other states. This is because these two states contain very large metropolitan areas such as Denver, St. Louis, and Kansas City. The lesson is that rural states with a larger share of the economy involved in agriculture and manufacturing are likely to be net exporters of tax burden. The implication is that more rural-oriented states may be at a fiscal advantage compared to urban-oriented states. It does not appear that a limited tourism industry damages Nebraska's fiscal situation. However, results in Figure 2 do indicate that a large energy industry is a significant advantage for a state's fiscal health. Wyoming, with its excise taxes on energy production and other mining activity, is a large exporter of tax burden.

Figure 2: Net Export of Tax Burden by Nebraska and Neighboring States in 2008



Source: Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview.

With the exception of Wyoming, the tax burden faced by households in Nebraska, surrounding states, and most states in the nation is largely a reflection of how much those states choose to levy taxes and spending on public services, rather than a reflection of each state's ability to export its tax burden.

Further, if Nebraska is as successful as most states in "exporting" its tax burden, then it is also relevant to directly examine Nebraska's tax burden, as measured by either: 1) total tax revenue collected by the State of Nebraska as a share of the state economy, or 2) by directly examining Nebraska tax rates. Each measurement is analyzed below.

The total tax revenue collected in Nebraska as a share of income is a strong measure of tax burden even if a significant share of the state burden is "exported." Specifically, even if taxes are successfully "exported" to tourists, residents and businesses that purchase the home state's manufactured or agricultural products, there is still an imputed burden on the home state economy. In particular, by raising the cost of exported goods and services, these taxes reduce the competitiveness of a state's tourism, manufacturing, and agricultural industries. Reduced competitiveness is obviously negative for the business sector. However, it is also negative for households due to the resulting lost employment and earning opportunities. Thus, households still face a tax burden even when the state effectively "exports" its tax burden.

All of these findings imply that total state tax revenue per dollar of state income is also a worthwhile measure of tax burden. In some ways it provides a clearer picture of a state's tax burden than the Tax Foundation measure presented in Tables 1 and 2.

As a result, we calculated the total state tax revenue as a share of state income and presented the results in Table 3 below. The measure is calculated and ranked for the year 2007 because it is the most recent year for which state tax revenue data are available in the *Statistical Abstract of the United States*.[2] For 2007, real state tax revenue per capita was $4,215 in Nebraska in real 2009 dollars. This is equivalent to 10.7 percent of per capita personal income. Table 4 shows the tax burden rank for Nebraska and neighboring states as measured by tax revenue as a share of state personal income. As before, the state with the highest revenue as a share of income had a rank of 1. Under this alternative measure, Nebraska continues to have an above-median tax burden.

Results in Table 3 are broadly similar to those in Table 2 in Nebraska and surrounding states. In 2007, Nebraska had a tax burden rank of 23 according to the measure in Table 3 versus a rank of 18 in Table 2. Iowa had a rank of 32 in Table 3 versus 33 in Table 2. Colorado continued to be a low tax burden state. The only state with a substantially different ranking was Wyoming, which as noted earlier, generates substantial revenue from energy and other mining taxes, effectively shifting the state and local tax burden to other states. Overall, evidence continues to suggest that Nebraska has a higher tax burden because the state chooses to charge higher rates of taxation within the state.

Table 3: Nebraska Tax Revenue as a Share of Income 2007 Comparison with Neighboring States

State and Local Tax Revenue as a Share of Income		
State	**Percent**	**Rank (highest=1)**
Nebraska	10.7%	23
Colorado	9.1%	47
Iowa	10.2%	32
Kansas	10.8%	19
Missouri	9.2%	46
South Dakota	8.2%	51
Wyoming	13.4%	4

Source: 2011 Statistical Abstract of the United States

Table 4 focuses on specific tax rates in Nebraska. The Table, using data assembled by the Tax Foundation, shows the top income and corporate income tax rates for Nebraska. It also shows the combined average of state and local sales tax rate across Nebraska as of January 2011. The top tax rates, which are reached quickly in the Nebraska tax code, are approximately between 6.8 and 7.8 percent of income, while the combined sales tax rate is around 6.4 percent of retail, personal services, and other taxable sales expenditures. Table 4 also shows how these tax rates in Nebraska rank among the other states. In the rankings, the state with the highest rate would receive a rank of 1. Results indicate that Nebraska falls just below the median combined rate for the state and local sales tax burden, but

just above the median rate for the top state income and corporate income tax rates. This suggests that Nebraska's above-median tax burden as a share of state income is not necessarily the result of the state having an especially high income tax, sales tax or property tax rate. Rather, Nebraska has all of the types of taxes at or near a median rate. A similar situation is confirmed below in the case of property tax rates. This finding implies that there may be advantages in reducing any of these taxes—there is no particular tax rate that is most clearly in need of adjustment.

Table 5: Tax Burden Ranking for Nebraska for 2007

Tax	Rank Among States (1=Highest)
Sales Tax Burden	13
Top State Personal Income Tax Rate	19
Top State Corporate Income Tax Rate	19
Property Tax Burden	16
Remaining Tax Burden	18
Estate/Inheritance Tax	22

Source: American Legislative Exchange Council. Note: State rankings reported in ALEC studies are inverted in Table 5 so that the highest burden state is ranked 1. For example, ALEC publications would rank Nebraska 37th among states for sales tax burden and that is inverted to 13th in Table 5.

Table 4: Major Tax Rates for Nebraska as of January 1, 2011

Tax	Rate	Rank Among States (1=Highest)
Combined State and Local Sales Tax Rate	6.39%	29
Highest State Personal Income Tax Rate	6.84%	18
Highest State Corporate Income Tax Rate	7.81%	19

Source: The Tax Foundation

The American Legislative Exchange Council (ALEC) also provided a ranking of the personal income, corporate income, and sales tax burden among states in its report using 2007 data Rich States Poor States: *ALEC-Laffer State Economic Competitiveness Index.*[3] The ALEC report also provides rankings for other types of taxes such as property taxes and "remaining tax burden." Rankings by ALEC typically assign a ranking of 1 for the state with the lowest tax burden. As a result, in Table 5, we invert the ALEC ratings so that the state with the highest tax burden has a ranking of 1, therefore results are comparable with others provided in this chapter. Nebraska's ranking for income tax burden are broadly similar to the rankings of the Tax Foundation in January 2011. The exception is that the ALEC measure finds a much higher ranked combined sales tax burden for the state of Nebraska. This is because ALEC utilizes a more comprehensive effective sales tax measure (sales tax collections as a share of income), which reflects the tax base, that is, the types of goods and services subject to tax.

Among other taxes, the property tax burden in Nebraska is 16th out of 50 states and the composite tax burden is 18th out of 50 states. Overall, like the Tax Foundation research, the ALEC report also demonstrates that Nebraska has one of the higher tax burdens among the states.

Table 6 provides additional information on the property tax burden. The Table examines the local property tax rate for owner-occupied housing in a set of Nebraska counties. The focus is on local household property taxes because most property taxes are collected at the local level. Local household property taxes will also vary within a state so it is appropriate to focus on the rate in specific counties. Table 5 is based on calculations by the Tax Foundation that ranked total property tax rates in all U.S. counties with at least 20,000 people. There are approximately 3,100 counties in the United States and the Tax Foundation analysis examined 1,823 of these. The household property tax burden reflects taxes for all local government services including city and county governments, school districts, and other local taxing districts. Property tax burden is presented as a share of income rather than as a share of property value to adjust for the significant difference in land values among states, particularly states on the east and west coast or high amenity states such as Colorado. When land prices are high, home prices are also high, and states can tax a lower share of the value of homes to achieve a similar level of revenue. Ratios of total county property tax revenue per dollar of income presented in Table 6 are an average for the 2007 to 2009 period. Therefore, the decision to present effective property tax rates as a share of income will avoid the substantial swings in property values during the 2007 to 2009 period.

Table 6 presents household property tax burden information for 16 of the most populated Nebraska counties. Results in Table 6 suggest that Nebraskans face a

relatively high household property tax burden per dollar of income. The tax burden in Cass County is ranked 193 out of the 1,823 counties nationwide. Similar rankings are found for counties throughout the Omaha and Lincoln Metropolitan areas. Household property tax burdens are somewhat lower in Nebraska micropolitan counties like Scotts Bluff or Platte Counties, but remain in the top third of the counties around the United States with a population above 20,000.

Table 6: Tax Burden on Owner-Occupied Housing 2007 to 2009 for Selected Nebraska Counties

Nebraska County	Tax on Median Owner-Occupied Home as a Share of Personal Income	Rank out of 1,823 counties (1=Highest Percentage)
Cass	3.95%	193
Lancaster	3.92%	199
Douglas	3.86%	209
Sarpy	3.85%	211
Saunders	3.70%	345
Dodge	3.55%	333
Gage	3.33%	360
Hall	3.27%	376
Madison	3.07%	444
Scotts Bluff	3.06%	452
Lincoln	3.06%	453
Adams	3.06%	454
Buffalo	2.93%	507
Platte	2.92%	516
Dawson	2.84%	550
Dakota	2.83%	551

Source: The Tax Foundation

The actual situation is not as dire as depicted in Table 6 because Nebraska (along with South Dakota) is one of the few states to assess residential property at the same rate as commercial property. In Nebraska, both residential property and most commercial property is assessed near its market value, while in most other states residential property is assessed at a much lower rate than commercial property. This leads to lower household property tax rates, of the type reported in Table 6, but may not lead to an authentic reduction in the property tax burden. This is because the higher tax burden placed on commercial property can be passed along to state consumers in the form of higher prices of food, retail items, and personal services.

Table 7 addresses this issue by presenting the total property tax revenue generated in each state from all sources (households and businesses) as a share of state personal income. The state tax burden is not as high as indicated in Table 6 and is the same as the ALEC measure presented in Table 5. Nebraska continues to have a higher property tax burden. Nebraska property tax revenue is 3.5 percent of personal income compared to 3.3 percent nationally. Nebraska's property tax burden is the 16th highest among 50 states and the District of Columbia. This represents yet another major tax category where Nebraska has an above-median tax burden, along with sales, personal income, and corporate income taxes. This emphasizes again that Nebraska's tax burden is an across the board phenomenon and not the result of one tax or another being high.

Table 7: Property Tax Revenue as a Share of Personal Income 2007 Comparison with Neighboring States

State and Local Property Tax Revenue as a Share of Income		
State	**Percent**	**Rank (highest=1)**
Nebraska	3.5%	16
Colorado	2.8%	34
Iowa	3.4%	19
Kansas	3.3%	20
Missouri	2.5%	37
South Dakota	2.8%	32
Wyoming	4.9%	3

Source: 2011 Statistical Abstract of the United States

To summarize, analysis in this section indicates that Nebraska has been a higher tax burden state for decades, and this situation worsened in the early 2000s as Nebraska dealt with the fiscal implications of the previous recession, and improved later in the decade with efforts to reduce state taxes. This situation has resulted from policy choices rather than any fiscal disadvantage due to Nebraska's rural

nature, or the lack of a large tourism industry.

States naturally need to choose their level of taxation based on the priorities and preferences in the state for various public services and income transfer efforts. It is also true that the states that impose a higher tax burden are likely to experience lower economic growth. One way for Nebraska to enhance its economic growth would be lower tax rates on personal and corporate income, sales, and property taxes. As was noted in the recent report *An Action Plan for Growing Nebraska*[4] (Thompson, Goss, and Niemann, 2009) prepared for the Nebraska Renaissance Group, each of these types of taxes place a burden on the economy and there is a benefit of lowering all such taxes in order to reduce the state tax burden. That report recommended a reduction in the tax burden as a share of income by around 20 percent over time (the percentage reduction in tax revenue could be substantially less as population and per capita income grow in response to a lower tax burden). As long as there is steady progress over time, such reductions would not all need to occur immediately. Further, there is reason to expect that progress can be made over the next few years. Specifically, Nebraska state government has chosen to address recent large budget deficits through reducing spending rather than through increasing taxes. Many local governments in Nebraska are choosing the same approach. This should allow state and local governments in Nebraska to reduce tax rates in the future while maintaining normal growth in funding for public services and income transfer programs. This is because tax revenue growth typically accelerates in the mid- and later stages of an economic recovery. As this occurs several years in the future, the state and local governments of Nebraska should be in position to lower income, sales, or property tax rates, or some combination of all three.

In summary, by reducing large budget deficits through spending reductions rather than tax increases, state and local governments in Nebraska have created conditions that are supportive of lowering the state's tax burden in the future. As revenue rebounds robustly later in the economic recovery, the state of Nebraska will be in position to lower tax rates while continuing to expand funding for public services at a normal rate. The same can be said of many local governments in the state.

There is reason for optimism in terms of Nebraska's tax burden in the years to come. Near-term policy recommendations also may choose to focus on another critical issue for Nebraska economic growth, the issue of regulation.

B. Regulatory Burden

Like taxes, regulations have a substantial influence on economic growth. Regulations also raise the cost of doing business and discourage, or even prevent, individuals and businesses from seizing market opportunities. These missed opportunities mean less economic growth. Regulations may help meet other short-term social objectives such as environmental benefits or public health, but economic growth is lower nonetheless.[5]

These broader points were raised recently during the national health care debate and as new regulations have been added to the financial industry. Like taxes that fail to fund essential, productive public services, regulations that fail to improve the efficiency and competitiveness of the economy can reduce economic growth.

When examining regulatory data, it is evident that by a number of measures, regulation is one area where Nebraska has maintained a comparative advantage over many other states. This section considers some of these advantages, and further points out areas where Nebraska may be able to extend its advantage in terms of regulatory environment. This could provide another important means to grow the state economy.

The American Legislative Exchange Council (ALEC) provided detailed analysis and ranking of states on a number of important regulatory measures. The ALEC report ranked states with the lowest regulatory burden with a ranking of 1. Again, to be consistent with the results presented earlier, we inverted the ALEC ranking so that the states with the highest regulatory burden had a ranking of 1 and states with the lowest regulator burden had a ranking of 50. The ALEC regulatory measures are presented in Table 8 and were: 1) state liability system survey, 2) state minimum wage, 3) average workers' compensation cost, 4) right-to-work state, 5) number of tax expenditure limits, and 6) education freedom index score. Note that the rankings include many "ties." For example, all states that are right-to-work states, or do not have a state minimum wage, receive a ranking of 50, indicating the lowest regulatory burden.

Table 8: Regulatory Burden Ranking for States for 2007

Tax	Rank Among States (1=Highest)
State Liability System Survey	47
State Minimum Wage	50
Average Worker's Compensation Cost	31
Right-to-Work State	50
Number of Tax Expenditure Limits	21
Education Freedom Index Score	32

Source: American Legislative Exchange Council

also has a below-median regulatory burden according to all five measures, while Iowa is median or below-median for all measures except education freedom. Kansas and Iowa are rated better than Nebraska in terms of worker's compensation costs but have a larger legal liability burden than Nebraska.

Table 9: Regulatory Burden Ranking for Nebraska and Neighboring States for 2007

Tax	NE	CO	IA	KS	MO	SD	WY
State Liability System Survey	47	29	46	37	16	39	28
State Minimum Wage	50	14	25	50	21	50	50
Average Worker's Compensation Cost	31	27	43	41	23	42	27
Right-to-Work State	50	27	50	50	27	37	50
Education Freedom Index Score	32	38	18	30	42	19	22

Source: American Legislative Exchange Council. Note: State rankings reported in ALEC studies are inverted in Table 9 so that the highest burden state is ranked 1. For example, ALEC publications would rank Nebraska 19th among states for average workers' compensation costs and that is inverted to 31st in Table 9.

While earlier analysis indicated that Nebraska has a high tax burden, the state performs better in terms of its regulatory burden. Nebraska was tied for the lowest regulatory burden in terms of minimum wage and the right-to-work issue. In particular, Nebraska does not have a minimum wage law of its own, instead utilizing the federal minimum wage. Nebraska also is a right-to-work state. Importantly, Nebraska has a low regulatory burden in terms of legal liability. With a rank of 47, Nebraska has the third lowest regulatory burden in terms of state legal liability. Among other measures, Nebraska also has a below average regulatory burden in terms of average worker's compensation costs and education freedom.

Table 9 shows how Nebraska compares to neighboring states in terms of regulatory burden, according to the ALEC *Rich States Poor States* report. In particular, Table 9 shows the rankings for Nebraska and the neighboring states of Colorado, Iowa, Kansas, Missouri, South Dakota, and Wyoming. Rankings were again inverted from the ALEC report in Table 9, as in Table 8. At a brief glance, results show that the neighboring states perform well as a group in terms of these five measures of regulatory burden. Most states have a below-median ranking value for most measures. Nebraska's ranking is most similar to Kansas and Iowa. Like Nebraska, Kansas does not have a state minimum wage and is a right to work state, while Iowa is a right to work state. Kansas

Nebraska modestly outperforms South Dakota and Wyoming in terms of these regulatory burdens. Nebraska solidly outperforms Colorado and Missouri on regulatory measures. Nebraska outperforms Colorado and Missouri by a wide margin on three of the measures - legal liability, minimum wage, and right to work. Results suggest that Nebraska is a leader among its neighboring states in terms of a lower regulatory burden. This is in contrast to Nebraska's comparatively higher tax burden.

Other sources find additional evidence that Nebraska performs relatively well in terms of regulation. One important regulatory issue not addressed by the ALEC study was regulation of health insurance at the state level. In particular, the number and types of coverage mandated in each state is an important factor influencing the cost of health insurance among states. As the name suggests, mandated coverage means that certain procedures or ailments must be covered by state health insurance plans, regardless of whether health insurance providers and consumers in the state would choose to offer and purchase this coverage. Mandates mean that a higher level of

coverage is required in each state than would likely result from a market outcome, meaning higher health insurance rates (of course, some mandated coverage may be included in most or all state health insurance packages even without the mandate). The Council for Affordable Health Insurance produces an annual report on the health insurance mandates in states entitled *Health Insurance Mandates in the States.*[6]

The report for 2010 estimated that Nebraska had 36 mandates in 2010 compared to a national average of 42.3 mandates per state. In addition, Nebraska ranked 32nd highest out of the 50 states (and the District of Columbia) in terms of the number of health care mandates. Table 10 shows the number of health care mandates in Nebraska versus neighboring states according to the CAHI report. The region seems to be typical of the nation in terms of the number of mandates, with some states below the average of 42.3 but a number of states either at or above the average. Iowa and South Dakota have fewer mandates than Nebraska, Wyoming has a similar number, Kansas and Missouri both have more, and Colorado has by far the largest number of mandates. As with other regulatory matters, Nebraska performs well relative to the region and the nation in terms of state health insurance mandates.

Table 10: State Health Care Mandates in 2010, Comparison with Neighboring States

State	Number of Mandates
Nebraska	36
Colorado	54
Iowa	27
Kansas	42
Missouri	42
South Dakota	29
Wyoming	37

Source: 2011 Council for Affordable Health Insurance

Of course, not all mandates are equal in terms of cost. The CAHI report listed 28 mandates that would lead to at least a 1 percent increase in the cost of health insurance.[7] Among those 28, the average state included 45 percent of those mandates while Nebraska included only 43 percent of those mandates. Once again, Nebraska was below average in terms of the health care mandate burden.

Overall, these patterns in Tables 9 and 10 suggest that Nebraska's more modest regulatory burden may compensate for the state's relatively high tax burden. This may explain how the state has been able to sustain solid economic growth over the last decade despite a relatively high tax burden and a climate and set of natural amenities that does singularly attract residents.

However, this finding does not suggest that Nebraska should be content with its current regulatory burden. There may be as many gains for Nebraska from further extending its regulatory advantage as from improving its tax and spending disadvantage. Further, there are substantial opportunities to further improve the state's regulatory climate by reducing or carefully reviewing regulations in general and health care mandates in particular, and improving education freedom. Such options are discussed in the recommendations presented at the end of this report.

III. A Comparison of Spending in Nebraska

This section considers state and local government spending as a share of personal income. The spending per dollar of income measure shows total state spending activity relative to the size of the state's economy, as measured by income. This section examines spending as a share of income in Nebraska and other states in aggregate and by type of spending. This detail is critical since the type of spending may also matter. In particular, it is possible that some types of state and local government spending are sufficiently productive that such spending benefits the economy, even if taxation is required to support this spending. Thus, it is critical to examine the types of state and local spending taking place, as is done later in this section.

Table 11 shows total state and local direct general expenditures as a share of state personal income in 2007 for Nebraska and surrounding states. Table 11 shows that percentage and each state's rank. As before, the highest expenditure state is assigned a rank equal to 1. Therefore, a lower rank suggests that a state has lower expenditures as a share of income. Direct general expenditures do not include revenue from insurance trusts, liquor stores, and utilities, which were excluded in order to avoid distorting expenditure results for Nebraska since electric utilities are

publically owned in Nebraska, a situation which is unique among U.S. states. The expenditures of these public utilities would be counted as public expenditures along with expenditures to provide public services such as protective services, corrections, highways, public health, education, parks and recreation, and public welfare spending. But the expenditures for public utilities are supported by ratepayer payments rather than by taxes, intergovernmental transfers or other similar sources.

Note that the percentages of income are much higher in Table 11 than the tax revenue as a share of income figures in Table 3. One reason for this is that a significant amount of state and local expenditures are supported by transfer payments from the federal government. These federal transfer payments are equal to 4 percent of income nationwide. The other reason is that a portion of expenditures are supported by revenue from sources such as tuition revenue (for universities), service revenue (for public hospitals) or user fees (for sewer utilities).

Table 11: State and Local Direct General Expenditures as a Share of Personal Income 2007 Comparison with Neighboring States

State and Local Direct General Expenditures as a Share of Income		
State	**Percent**	**Rank (highest=1)**
Nebraska	18.6%	32
Colorado	16.3%	47
Iowa	20.1%	20
Kansas	18.5%	33
Missouri	17.5%	39
South Dakota	16.9%	44
Wyoming	25.0%	4

Source: 2011 Statistical Abstract of the United States

Results in Table 11 show that Nebraska is near the median state in terms of direct public expenditures as a share of income. Nebraska is ranked 32 out of 51 states and the District of Columbia. These results suggest, once expenditures for utility services are removed, expenditures on public programs in Nebraska as a share of income are moderately below the median level of all states. Results in Table 11 also show that Colorado and South Dakota have among the lowest direct expenditures as a share of income along with the lowest tax revenues as a share of income (see Table 3).

A critical issue, however, is the mix of expenditures as well as the total expenditure. In particular, different types of government services can have differing impacts on state economic growth. For example, a portion of state and local public services go towards income transfer services, such as aid to low income families, or efforts to provide key services such as health care and housing to low income families. Such programs may serve a public purpose but are unlikely to contribute to economic growth. In particular, taxes paid to support these activities would tend to reduce economic growth.

Other types of direct public expenditures may provide an amenity to the public in general or at least to interested members of the public. If broadly valued, these public amenities could produce a value for the public that can offset the taxes paid to support these services. Examples include parks and recreations, natural resources, support for the arts at the state level, and support for parks and libraries at the local level. The difficulty is that some members of the public may not value these services, and in any case it is difficult for all members of the public to purchase their preferred level of service. These caveats create an expectation that state and local spending on these public services also would reduce the rate of economic growth.

The final group of public services includes expenditures that directly contribute to the productivity of the economy such as public safety (police protection, fire protection, and corrections), education, and highways. There are opportunities to provide some of these services privately as well, but public spending on these services would have the potential (compared to public spending on other services) to contribute to economic growth within states. In particular, core contributions to public safety, local highway infrastructure, and education would be expected to be productive, at least up to a point. However, as spending continues to grow and begins to be targeted towards less essential highways or less critical education programs, the marginal productivity increases supported by this public spending could be outweighed by the negative impact on growth and productivity from higher taxes. Economists envision a "growth hill" where there is an optimal level of

public spending for productive services such as public safety, education, and infrastructure. Below that optimal expenditure rate the productivity benefits of further spending outweigh the costs of more taxes, and greater public expenditure and taxation contributes to growth. Above that optimal expenditure rate, public spending supports less critical projects and additional expenditure reduces the rate of economic growth. This implies that even public expenditure on productive activities such as public safety, education, and infrastructure, have potential to reduce economic growth. Such an outcome may be particularly likely given that public agencies may deliver services such as infrastructure or education less efficiently than the private sector.

Summarizing, there is reason to expect that most types of direct general expenditures by state and local government will tend to reduce economic growth, at least at current levels. Expenditures to transfer income or provide basic services to low income residents may meet an important public goal but would reduce economic growth. Spending on public amenities also would often reduce growth. Further, at current spending levels, lower levels of spending on productive services such as public safety, education, and infrastructure could encourage economic growth. In particular, it is possible that many state governments are already at or above the optimal rate of expenditure on these services (Thompson, Rosenbaum and Khanzhyn, 2010; Brown et al., 2003)[8], so that at current levels public spending on these services reduces growth.

However, public spending on "productive" services such as public safety, education, and infrastructure has the best chance to contribute to economic growth. Further, spending on amenities would be more neutral in terms of economic growth than "redistributive services" such as income transfers or public health and housing services. Therefore we examine public spending at the state and local level in each of these three categories in Nebraska and other states.

Table 12: State and Local Redistributive Expenditures as a Share of Personal Income 2007 Comparison with Neighboring States

State and Local Expenditures on Redistributive Services as a Share of Income		
State	**Percent**	**Rank (highest=1)**
Nebraska	4.0%	29
Colorado	2.7%	50
Iowa	4.0%	31
Kansas	3.4%	44
Missouri	3.8%	34
South Dakota	3.5%	42
Wyoming	3.9%	33

Source: 2011 Statistical Abstract of the United States

Table 12 examines state and local expenditures on redistributive programs and services as a share of income. These redistributive services include spending on public welfare, health, housing, and community development. As seen in Table 12, Nebraska expenditures on redistributive services account for 4.0 percent of income. This level of spending ranks 29th among states, or very close to the median level. This is similar to Nebraska's rank for total direct general expenditures, which was 32nd. Among neighboring states, Nebraska is close to Iowa for the highest share of expenditures on redistributive services. Low expenditure states such as Colorado and South Dakota also spend among the lowest share of income on redistributive services. This is particularly true of Colorado. Finally, it is evident from Table 12 that Wyoming is not focusing its expenditures of energy tax revenues on redistributive activities.

Table 13 examines direct state and local expenditures on amenities such as natural resources, parks and recreation.[9] As seen in Table 13, Nebraska expenditures on these amenities account for just 0.6 percent of personal income, with Nebraska ranked 23rd among states. Nebraska spending on amenities is ranked somewhat higher than for other types of expenditures. This pattern is even more evident for Colorado and South Dakota. These normally low tax and local expenditure states are among the highest ranked spenders on these natural amenities. This spending could reflect the amenity preferences of their state population or could be tied to larger tourism industries in the state. This phenomenon is even more evident for Wyoming, which is the highest ranked state in terms of spending on natural amenities as a share of income. Wyoming is devoting a significant portion of its mineral revenue to these amenities.

Table 13: State and Local Natural Amenity Expenditures as a Share of Personal Income 2007 Comparison with Neighboring States

State and Local Expenditures on Amenities as a Share of Income		
State	**Percent**	**Rank (highest=1)**
Nebraska	0.6%	23
Colorado	0.7%	17
Iowa	0.6%	26
Kansas	0.5%	33
Missouri	0.4%	37
South Dakota	0.9%	8
Wyoming	1.5%	1

Source: 2011 Statistical Abstract of the United States

Table 14: State and Local Natural Public Safety, Education and Infrastructure Expenditures as a Share of Personal Income 2007 Comparison with Neighboring States

State and Local Expenditures on Public Safety, Education and Infrastructure as a Share of Income		
State	**Percent**	**Rank (highest=1)**
Nebraska	9.2%	22
Colorado	7.7%	44
Iowa	10.5%	7
Kansas	9.3%	21
Missouri	8.3%	32
South Dakota	6.8%	48
Wyoming	12.4%	1

Source: 2011 Statistical Abstract of the United States

Table 14 examines direct state and local expenditures on "productive" public services such as education, public safety (police protection, corrections), and highway infrastructure. Some other productive expenditures — such as firefighting services and other infrastructure spending — are included in the "other direct general expenditures" category and cannot be examined separately here. As seen in Table 14, Nebraska and its localities expend 9.2 percent of personal income on these types of potentially productive public services. Nebraska is ranked 22nd in expenditures among the states and the District of Columbia. Among other states, Colorado and South Dakota are among the lowest spending states on these services. Iowa is among the highest spending states at a rank of 7. Wyoming is the highest ranked state in terms of spending, indicating that the state is devoting the largest share of its mineral revenues to spending on these "productive" services. Such higher levels of services may make sense in particular in Wyoming given that the state is able to export such a large share of its tax burden to other states.

State spending in a miscellaneous group of other spending categories is not shown in Tables 12 through 14. In particular, state and local spending on sewers, solid waste, governmental administration, interest on the general debt, and other direct general expenditures were part of total direct general expenditures in Table 10, but not part of the subsequent tables. This diverse group of spending categories does not tie directly to a clear spending category such as redistributive spending, natural amenities, or "productive" services. This group of sectors is also the reason that the spending shares in Table 12 through 14 do not add to the total reported in Table 11.

Summarizing the findings regarding expenditures, Nebraska's total direct general expenditures are slightly below the median level for states. Nebraska spending is also near the median level for states in terms of redistributive expenditures, natural amenities, and "productive" expenditures. These results suggest that Nebraska expenditures are not out of line with those in other states, but Nebraska does not gain an advantage over other states through restrained spending policies, at least as of 2007. Nebraska could benefit from efforts to restrain growth in spending. However, as noted earlier, this has occurred in part through recent efforts to cut state and local budget deficits in Nebraska. Future efforts could maintain state and local spending growth at moderate, normal levels as tax revenue growth recovers. This will ensure that state and local governments will have opportunities for tax cuts as the economic expansion continues.

IV. Business Incentives in Nebraska

As noted above, the basic tax, regulatory, and spending environment can be a critical predictor of growth within state economies. All states, however, also turn to economic

development incentives as an additional tool to enhance growth. If designed properly, economic development incentives can contribute to growth. However, proper policy design is a difficult issue.

In this section, we examine the efficacy of economic development policies. In particular, are recent expansions in economic development incentives in Nebraska simply a "race to the bottom" in reaction to competition among states? Or, are the changes beneficial by reflecting an improvement in economic development policy or an effort to fine-tune incentive policies in reaction to a changing economy?

Recent changes in economic development policy with the adoption of the Nebraska Advantage Act and the inclusion of additional tiers have tended to expand incentives but have also changed them in several important ways. In particular, these changes increased the importance of worker training incentives, reduced the threshold for investment and job creation to be eligible for incentives, and offered incentives for large investments without the criteria for job creation.

Such changes, which increase the type and size of firms that are eligible for investment incentives make for improved economic development policy. This is can be seen by looking at incentive policies from a tax and spending perspective. In particular, a key assumption regarding incentives is to consider the alternative scenario. In the absence of incentives, would there have been more government spending or would there have been lower rates for other types of taxes? In the former scenario, tax incentives would clearly be a productive exercise because, as was noted earlier, most types of government spending are not economically productive. Business incentives are at least lowering taxes and reducing spending, which is likely to be beneficial for economic growth. In the latter scenario, economic incentives would create a targeted tax cut for certain businesses at the expense of some general across-the-board tax cuts that might benefit all businesses or all businesses and households. In this scenario, the targeted incentive would only improve economic growth if the incentive was successfully targeted towards the most tax-sensitive economic activities. If this is not accomplished, incentives would tend to reduce economic growth.

The former scenario will frequently apply. Tax incentives result in reduced government spending. In other words, lawmakers are able to justify incentives but may not have been able to pass across the board tax cuts. However, the latter scenario also sometimes applies. Tax incentives may come at the expense of across the board tax cuts in sales, corporate income, or personal income tax rates. In this case, it is critical that incentive policies are broad-based and offer flexibility to decision-makers to choose tax- and incentive-sensitive investments.

A broad-based tax incentive is critical since it can be very difficult to draft incentive rules and regulations that target tax cuts by industry, size of firm, or magnitude of employment creation. With any such incentives, the incentive packages can be essential for an economic development project to go forward, whether it is an expansion of a locally-based business, the Nebraska plant or office from a multi-location firm, or a firm considering a location in Nebraska and other states. However, in other cases, firms may have been planning investments and expansions and meet the written criteria for incentives, or can meet those criteria with modest changes in their plans. These firms will also be eligible for the codified incentives. In other words, with well-defined incentive criteria it is difficult to distinguish between firms that require the incentive to act and firms that do not. Consequently, it is a challenge to utilize incentive rules to target those firms where the investment decisions are most sensitive to taxation.

This suggests that established incentive rules should mirror a broad-based tax cut. For example, Nebraska's incentive programs provide a variety of criteria to offer tax incentives to businesses making major capital investments. The incentive program in this sense offers a low tax rate on the returns (income) that result from major capital investments. This is a reasonable broad-based tax approach, especially if it is believed that capital investments are more sensitive to taxation than other types of economic activity. But, even if this is not the case, Nebraska's approach at least provides a way to give business incentives that are rooted in the notion of across-the-board tax cuts. This is especially true since a broad group of industries and types of investments are eligible for the Nebraska incentives. Incentives are also available to large investments that do not even meet a specific employment creation criterion. This broad-based nature recommends

Nebraska's approach to incentives from an economic growth and development perspective. Indeed, efforts to further refine Nebraska's incentive programs may further broaden the types of capital investments that are eligible for incentives.

Outside the formal rules for receiving incentives, there also may be opportunities for additional incentives at the discretion of economic development officials and public officials. These incentive funds would have maximum flexibility, and be applied on a case-by-case basis. The hope is that economic development officials could use the specific information for each potential investment to identify those investments that really do depend on and require the incentives to go forward. The flexible incentive funds only would be given to these projects. This approach would naturally rely on the judgment and efficacy of economic development leaders and public officials, but is probably the only way to differentiate those projects that are most sensitive to those that would occur with or without the incentives. Obviously, economic development leaders and public officials would need to be monitored and evaluated carefully based on the quality of these judgments.

The importance of flexibility was also noted in discussions with economic developers in Nebraska. One developer suggested a major effort to target a bundle of economic development incentives—credits, workers training, infrastructure and sites—towards a key targeted industry. Of course, the specific industry would need to be identified by economic development officials. The goal would be to create a clear advantage for Nebraska in that industry. Such an effort could be beneficial for Nebraska within the context of a broad-based incentive program. Much like the owner of a stock portfolio may devote a modest portion of that portfolio to a higher risk-return investment, a modest portion of Nebraska's economic development efforts could be focused on a key industry in this way.

V. Integrated Strategies to Promote Growth

State and local governments in Nebraska have faced large budget deficits over the last three years. Government in Nebraska has largely met these budget challenges by reducing spending rather than increasing taxes. In doing so, state and local governments in Nebraska have created conditions that are supportive of lowering the state's tax burden in the future. As revenue rebounds robustly later in the economic recovery, the State of Nebraska will be in a position to lower tax rates while continuing to expand funding for public services at a normal rate. The same can be said of some local governments in the state. This suggests that conditions will be favorable to state and local tax cuts in Nebraska over the next five years, and such cuts will promote economic growth. To best encourage growth, such tax cuts should be across-the-board in the state sales, personal income, and/or corporate income tax rates. Cuts in all of these tax rates are very helpful for economic growth as are tax cuts for households in all income groups and businesses of all sizes.

Given this condition, the current report considers other types of strategies to promote economic growth in Nebraska. These companion strategies focus on ways to further reduce the regulatory burden, or efforts to further improve the quality of life and economic development efforts in the state. Specific recommendations are discussed in detail below.

1) Introduce a Sunset and Re-authorization System for State of Nebraska Regulations

Any state over time will accumulate a large set of environmental, labor, safety, sanitary, licensing, and other regulations. Some such regulations are helpful to the functioning of the economy while others are designed to meet other public goals at a trade-off with economic growth.

Regulations are also an evolving issue. Some regulations can become less critical over time as the economy, technology and society changes while other regulations can become more critical or brand new regulations come under consideration. State and local governments need efficient mechanisms to address changing regulatory needs and the more general problem of a regulatory burden that creates too substantial a trade-off with state economic growth.

The costs of regulations can be quite substantial. While comprehensive studies on the cost of state regulations are less common and sometimes use indirect methods of measurement,[10] there have been recent efforts to examine the cost of federal regulations on business. These federal

costs provide a useful benchmark about the level of costs that can be involved in regulation. For example, Crain (2005),[11] focusing on economic, work place, environmental, and tax compliance regulations, estimated federal regulatory costs of $5,633 per employee economy-wide. Costs were even higher for small businesses. The cost per employee was estimated at $7,647 at a business with less than 20 employees in the Crain (2005) study. This same study found a per employee regulatory cost of $5,411 for businesses with 20 to 499 employees and $5,282 for businesses with 500 or more employees.

Given regulatory costs, the changing economy, and ongoing efforts to promote economic growth, a process is needed for a comprehensive review of regulations with significant potential to terminate selected regulations, where appropriate. Along those lines, the Washington Policy Center recently proposed an approach in that state for regulatory reform to introduce sunset provisions for all new regulations, and the review of all existing regulations.[12] A sunset period of six years was recommended. A similar "sunset and re-authorization" process is recommended for the State of Nebraska, except that it is recommended that sunset provisions also be added to many existing regulations. The specific recommendation is stated below.

Nebraska should establish a panel to examine all state regulations and introduce a sunset date on many of them.[13] The purpose of the sunset provisions would not necessarily be to eliminate those regulations but to provide a periodic opportunity to actively consider whether to re-authorize those regulations. Further, re-authorized regulations and most new regulations (see footnote 13) should be provided with a sunset date. As part of its sunset and re-authorization strategy, Nebraska should set a goal of decreasing the total per capita cost of regulation by a cumulative 10 percent per decade. Current regulations should be placed on a staggered schedule for re-authorization in order to limit the regulatory uncertainty at any point in time engendered by such a process. Note that state government would maintain the option of re-authorizing regulations before the sunset year in order to enhance regulatory certainty.

2) Introduce a Sunset and Re-authorization System for Nebraska Industry-Based Special Taxes and Tax Exemptions

For the reasons state above, the State of Nebraska should establish a similar sunset and re-authorization process for all tax exemptions or credits that benefit a particular industry or particular group of industries in the state, as well as for all special taxes that fall on a particular industry or groups of industries.[14]

3) Privatization Over Time of State and Local Government Programs and Assets Involved in Entertainment and Recreation

Privatization of government services at the state and local level is a topic of substantial discussion and action in many states (Gilroy, et al., 2011).[15] There are multiple approaches to privatization. The largest group of privatization efforts focuses on contracting out public services to be provided by private companies, and non-profit organizations. The goal is that the services can be provided in a more cost effective manner, and that a higher level of service could be provided by more flexible private providers. Such efforts are the focus of privatization efforts in states such as New Jersey, Louisiana, and Florida (Gilroy, et al., 2011), and may improve efficiency. One concern about such efforts, however, is the increased level of public contracting with private business, and the potential for associated pitfalls. However, a larger concern with this type of "privatization" effort is that state (or local) government continues to fund the programs, and typically continues to set rules on eligibility and the level of service. In other words, programs remain a government service and the size and scope of government is unchanged. A lingering question is: what privatization has actually occurred?

By contrast, states have also engaged in more complete privatization efforts, where whole functions are taken out of the public sphere and provided instead by the private sector. As a result, private businesses make decisions about the level of service, the cost of the service, or whether the service should even be provided market demand. These efforts directly reduce the size and scope of government and generate an economy that is more purely market-driven. These privatization efforts more clearly encourage economic growth and over time might better meet the needs of the public.

Many of these full privatization efforts around the country have focused on entertainment and recreation services provided by state and local government. These are a natural place to start true privatization efforts since entertainment

and recreation typically are not "core" public services and there are established private sector businesses, managers, and entrepreneurs able to initiate private operation. The Reason Foundation produces an annual report tracking state privatization efforts (Gilroy, et al. 2011). As noted in the 2010 report, New Jersey had an initiative to sell several state-owned racetracks and many states have considered divesting from state-owned liquor stores. Such privatization efforts are noteworthy but many states never owned such facilitates. As a result, these examples of full privatization are less compelling. However, The Reason Foundation report also cites a more important and generally applicable example from Arizona, which had an initiative to privatize selected state parks. That effort was in response to a plan to close several parks due to a state budget crisis. A private contractor offered to take a long-term lease to operate the parks given current park entrance fees and to pay an annual lease fee to state government. This is not complete privatization but could be if the state instead sold the state parks and reduced or eliminated restrictions on fees charged or services provided. This leads to the following recommendation.

The State of Nebraska should consider the sale (privatization) of state parks and recreation areas to private operators over time. If feasible, covenants could be applied to the development of the land to maximize the continued use of a park. However, operators should be given discretion as to prices and service mix provided at the park. The state should proceed with the policy over time with a modest pace of sales to observe market reactions, patterns in operation, and to refine covenant agreements. Initial sales should include a mix of parks with smaller and higher levels of attendance to examine the efficacy of the program in different situations. For the benefit of local taxpayers, efforts should be made to sell parkland to for-profit businesses that are subject to property taxes and other types of state and local taxes. However, in the case of parks with limited attendance, non-profit private organizations, including community organizations, may be among the most interested purchasers.

Local governments may take a similar tact with local parks, with control and responsibility for parkland transferred to non-profit community and neighborhood associations. Local governments also may over time curtail and ultimately cease providing recreation programs, selling facilities and programs to the private or non-profit sector when possible, and working with non-profit organizations (for example, the YMCA) to replace services as local government withdraws. Sales of facilities can also apply to stadiums, arenas, golf courses, swimming pools, and fields in the case when these facilities are owned and operated by government rather than private organizations. Finally, libraries are another institution for which (while not precisely recreation or entertainment) ownership and operation could be transferred to non-profit organizations. Such actions would be largely a local matter, but state government must ensure that state law makes such transactions feasible.

4) Assess Agricultural Property at the Same Fair Market Value as Residential and Commercial Property

Property taxes have a significant impact on state and local economic growth. This is best illustrated by the work of Brown et al. (2003) who examined the net effect on the economy from state and local governments using property, sales, or income taxes to pay for public services. The researchers found that property taxes most consistently yielded a negative impact on economic growth regardless of what public services were funded. Property taxes used to pay for public safety, education, health and hospitals, housing, and welfare all yielded a negative net impact on economic growth. Not even income taxes had such a consistent negative impact on growth.

These results suggest that states with lower property taxes and fewer services (and similar levels of sales, income, and other taxes) would have faster economic growth. More to the point, communities with lower property taxes would have a substantial advantage for economic growth. Such communities also would more effectively attract and retain new residents, further contributing to economic growth. Just the opposite would be true of communities and states with higher levels of property taxes.

Within Nebraska, there is a substantial opportunity to lower tax rates for non-agricultural commercial, industrial, and residential taxpayers, especially in the rural counties of the state. In particular, agricultural land in Nebraska is assessed at 75 percent of its fair market value.[16] This lowered assessment criterion yields a substantially lower level of taxable property base value in many counties,

requiring higher tax rates for a given level of property tax revenue. Property tax rates could fall substantially if agricultural property was assessed at the same near-market rate as other types of property in Nebraska. This would yield a much lower property tax rate, and effective property tax rates would fall for non-agricultural commercial, industrial, and residential taxpayers. The results would be a substantial improvement in economic growth, particularly in the rural counties of the state.[17]

Agricultural producers, naturally, would pay higher effective property tax rates. This would have a negative impact on the economy, including businesses in town that supply agricultural producers. However, as was noted earlier in discussions of economic development, broad-based tax rates that apply widely are the most effective tax policy for growth, unless lower rates can be successfully targeted to the most tax sensitive parties.

But, is this happening in the case of the lower assessment for agricultural land? Most likely it is not happening. In particular, it is far from clear that agricultural production is more sensitive to taxation than other types of economic activity. Many argue that land is less sensitive to taxation than other types of capital. In that case, the gains for rural communities in terms of overall economic activity are likely to outweigh these costs for agriculture.

However, this will only hold under the right conditions. In particular, assessment and taxation of agricultural land at a fair market value must be done in a revenue-neutral manner. This means that local property tax rates must fall sufficiently so that there is no immediate increase in revenue.[18] If total revenue increased immediately, the gains from a more efficient tax system would be outweighed by the fact that the total tax burden in the county had risen.

This goal of revenue neutrality must be a focus in any effort to end the lower assessment rate for agricultural property. Such a result would be hard to legislate. However, given sufficient information, the public may demand a revenue neutral reduction in property tax rates. To accomplish this, the Nebraska Department of Revenue could calculate the new revenue-neutral tax rate for each county and report that to residents and businesses with the expectation that voters in most counties would demand the revenue-neutral reduction in property tax rates.

State government also must ensure that rural counties are not penalized for lowering their property tax rates. In particular, levels of state education support should not be influenced by such decisions of county governments to broaden their property tax base and lower rates.

5) Support Community Marketing Programs

Economic growth is often thought of as an effort to attract capital and create job opportunities to support the local work force. This view is correct but only focuses on half of the issue: in the parlance of economics, the issue of demand for workers. But, the supply of workers is also critical since the growth of total employment, a key component of economic growth depends not only on increases in demand but also on increases in supply.

In the case of Nebraska, a key supply side issue is the ability to attract and retain workers in the state and within regions of a state. Nebraska has faced a sustained net loss of domestic residents to large cities in other states or states with a warmer climate or well-known recreation and natural amenities (beaches and mountains). Of course, Nebraska also has a large set of natural amenities and quality of life factors that are attractive to many people including biodiversity, good public schools, and low crime. Many local communities in Nebraska have vibrant downtowns, a great variety of activities and civic associations. Such amenities, however, are less generally well known. As a result, there may be opportunities to grow the Nebraska economy by increasing the supply of workers by directly marketing these community attributes.

Such efforts are properly led and ultimately financed at the local level (as are most local economic development efforts) since local residents have the most information about local attributes and about potential movers. However, there may be a role for the state in supporting and providing training on these community marketing efforts.

An interesting example of such local efforts is the Norfolk Area Recruiters, which have attracted dozens of families to their community over the last five years. Another interesting example is an effort led by economic development officials in Columbus to attract workers during the 2006 through 2008 period by recruiting in states such as South Dakota, Iowa, and Michigan (Thompson, Butters, and Zheng, 2009).[19] Further, community

marketing efforts have already been supported through Nebraska's Build Entrepreneurial Communities Act (BECA). This act provides financial support to communities and community groups willing to provide matching funds to community marketing efforts and other innovative local strategies such as entrepreneurship training.

This last factor was the basis for a recommendation in the 2009 report, *An Action Plan for Growing Nebraska* (Thompson, Goss, and Niemann, 2009) to expand funding for the Building Entrepreneurial Communities Act (BECA). While the current report has tended to focus on enhancements or additional recommendations not already covered in that 2009 report, growth of community marketing efforts is sufficiently important that this recommendation is made again. The 2009 Action Plan called for a $5 million annual budget for BECA.

The current recommendation is to substantially expand funding for BECA but a specific amount is not recommended. The amount will depend on the availability of funding and the earlier-stated objective of expanding government spending at a moderate rate (to allow for tax cuts as revenues rebound from the recession). However, it may make sense to curtail other economic development programs to expand funding under BECA. It is further recommended that the State of Nebraska work with researchers at the University of Nebraska-Lincoln in developing community marketing efforts. Researchers in the Department of Agricultural Economics and the University of Nebraska Rural Initiative are among the leading researchers in the United States on the topic of community marketing and have received support for this research from the U.S. Department of Agriculture.

6) Carefully Design Any State and Local Immigration Policies

As noted in the previous section, growth in population and labor supply is a critical component of economic growth in any state. Further, in Nebraska, population growth has often been an issue of particular concern. Over the last hundred years, Nebraska has consistently lagged the nation in the rate of population growth. Even during the recent decade of 2000 to 2010, when Nebraska's population grew more rapidly than usual, population growth rates lagged national growth rates. The primary reason for this is that in most years Nebraska loses more residents to other states than it gains from other states. The pattern of negative "domestic" migration was the subject of Recommendation 5), which was discussed in the proceeding pages.[20] However, it is also important to consider the other potential source for population growth and labor supply growth in Nebraska: legal international migration.

Legal international migration also can make a significant contribution to growth in the labor supply that can underpin economic growth in the State of Nebraska. Indeed, legal international migration has been a substantial source of population growth over the last decade, with a net increase in international migration of 32,000 for Nebraska between 2000 and 2009, according to the United States Bureau of Census. This net gain of 32,000 was nearly large enough to offset the 41,000 net loss due to state-to-state migration of domestic residents. Thus, legal immigration is an important contributor to population growth, and therefore, to economic growth. This is true in the urban areas of the state but also in many rural areas.

While Nebraska and the nation benefit from legal immigration, the United States also has a significant and ongoing issue with a substantial level of illegal immigration. This is obviously an important issue for federal policy, but many citizens and officials at the local level have also worked to address the issue of illegal immigration. There have been dozens of such initiatives at the statewide level in states around the country in just the last few years.

Such policies have substantial potential to improve law enforcement and reduce illegal immigration into the United States. Such state and local immigration policies, if enacted, should expect employers, landlords, and others to follow the law. For example, communities in Nebraska have recently adopted laws and regulations that encourage verification of legal status at the time of key events such as employment, or in obtaining housing. However, it is also important to ensure that legal immigrants feel welcome in a state, and are not subject to inspection and status verification on a day-to-day basis, in part based on their country of origin.

Such a balance, of course, is difficult to strike. It is likely that institutions and people that work most closely on law enforcement issues would be most sensitive to the relevant trade-offs. Therefore it is recommended that any new state

or local regulations on enforcement of immigration laws should be designed with substantial input from state and/or local police associations and their rank and file membership. It is also recommended that any new regulations have substantial support from police organizations and their members.

7) Reduce Annexation Powers and Regulation and Fees on Construction Activity

The housing crisis was not as severe in Nebraska as nationwide. However, even in Nebraska, the construction and real estate industry was hit very hard by the 2008-2009 recession. The industry also has failed to substantially recover since the end of that recession. This has curtailed an important engine of growth for the Nebraska economy, and focuses attention on regulations in Nebraska pertaining to the real estate industry. If economic forces are unlikely to drive solid growth in the real estate industry in the years to come, can changes in regulation instead fuel faster growth?

In particular, faster growth may result if Nebraska reduces regulations that discourage new development or reduce competition among cities. Regulation of new development stems from legitimate concerns about "infrastructure externalities." These externalities arise given that builders and purchasers of new properties will not consider some of the public infrastructure costs of extending water, sewer, electric, and road infrastructure, and schooling infrastructure, out to the site of new developments (developers bear the cost of installing infrastructure within the development). Without considering these costs, developers and purchasers of new property would develop too much new property, hurting economic efficiency. Communities are correct to address this externality but communities must be careful not to over-address it, restricting the pace of new developments below economically efficient levels and hurting economic growth. In particular, many communities already place minimum density requirements on new development. These minimum density requirements can internalize the infrastructure externality by requiring new developers to use infrastructure more efficiently. Further, the new developments do not necessarily impose infrastructure costs on the city. For example, in Lincoln, Nebraska, Thompson (2005)[21] found that new residential development creates sufficient new tax revenue to cover infrastructure costs and cover per household operating costs for city services.

The problem arises when communities impose additional fees or steps to cover the infrastructure costs of new development. Recall that externalities may have already been addressed by minimum density requirements so these additional efforts may represent an additional tax on infrastructure, restricting the rate of growth in this key industry.

Growth similarly can be hurt when state regulations reduce the competition among cities and towns within urban areas. Cities and suburbs in metropolitan areas and cities and towns in micropolitan areas compete with each other for residents and investment by providing superior bundles of (greater) services and (lower) taxation. This competition creates greater incentive for these individual communities to operate efficiently and only offer the level and types of public services that are most in demand. Metropolitan and micropolitan areas that benefit from this competition will be more attractive to people and capital and grow faster. By contrast, growth will be slower in metropolitan or micropolitan areas where this intra-urban competition is stifled. Unfortunately, such competition may be stifled in Nebraska due to the ease of annexation of second class cities by first class cities in the state. Specifically, first class cities are able to annex second class cities which they surround, but this can occur commonly given that first class cities also have broad powers to annex adjacent rural lands. The result is that first class cities within metropolitan or micropolitan areas can ultimately annex surrounding suburbs and towns rather than competing with them. This was recently illustrated for the case of Elkhorn, Nebraska.

Further, a feature of current regulations is that cities of second class can be annexed when there are established utility infrastructure connections between cities of first class and the cities of second class but cannot be annexed when cities of second class have substantial existing utility infrastructure. This feature of Nebraska state law places too much emphasis on infrastructure issues given the important competitive features of community competition within local economies, and is probably a consequence of widespread public ownership of utilities in Nebraska. These infrastructure concerns should not be given

significant weight, and to the extent that these infrastructure issues are substantial, privatization of utilities would be a more appropriate policy response than continuation of current annexation regulations.

In summary, we encourage regulatory changes in Nebraska at the state and local level that will allow the competition among communities within micropolitan and metropolitan areas and which refrain from imposing multiple layers of infrastructure costs onto new developments. The recommendation for Nebraska is that state annexation statutes should be modified so that a city of first class cannot annex a city of second class without the consent of the city of second class. The recommendation for local government is that new developments within designated developable areas within a city or its urban services area should not be charged impact fees or assessed other similar chargers as long as that planned development meets a city's goals for density of development.

8) Expand Eligibility for Nebraska Advantage Incentives

As argued in Section IV, incentive policy would be most effective if codified eligibility requirements are as broad as possible across industries and investment profiles, while additional incentive funds are made available to the discretion of economic developers and policy-makers. Current Nebraska economic development policy is advantageous because a broad group of industries are eligible and incentives are available to on-site or new location investments of various sizes. That said, at all but the highest investment levels, direct employment impacts as well as investment are required to meet eligibility requirements. This approach excludes investments that ultimately are likely to be supportive of employment growth and retention, even if those employment benefits are not demonstrable or demonstrable in the short-run for many of the investments. These investments also should receive incentives. This leads to the following recommendation.

The Nebraska Advantage Act should be modified to drop any employment creation requirements associated with each eligibility tier. Nebraska should also make a large fund available to political and economic development leaders to apply to the most beneficial economic development projects, defined as the most important economic development projects and/or the projects where additional incentive finds are most critical to ensuring that the key investment takes place.

The latter part of the recommendation is based on a recommendation that was part of the 2009 report *An Action Plan for Growing Nebraska* (Thompson, Goss, and Niemann, 2009). The recommendation in that report called for an initial budget of $25 million for this discretionary fund. The current recommendation is to make substantial funds available but a specific amount is not recommended. The amount will need to depend on the availability of funding and the earlier-stated objective of expanding government spending at a moderate rate (to allow for tax cuts as state government tax revenues rebound from the recession).

9) Reduce Health Care Mandates and Raise Deductibles and Co-Pays

Health care costs are rising rapidly, and health care spending is becoming a larger share of household spending. This fact by itself is not necessarily concerning, or even surprising, given that the health care sector is among the most dynamic part of the economy, with a rapid pace of innovation and introduction of new treatment techniques, medicines, and medical devices. These innovations frequently increase the quality and length of people's lives.

The concern about rapidly rising health care costs arises from the significant level of government involvement in the sector and market imperfections like concerns that insured persons will not consider the cost of health care services they request. These market imperfections and government involvement in the health care market by providing health insurance, exempting health care benefits from income tax and health care services from sales tax make health care services far from ordinary goods and services. These factors further encourage health care spending and make it difficult to determine the extent to which rapid growth of health care spending reflects government intervention or the innovation described earlier.

This issue can be addressed by making health care spending more of an ordinary good or service, one that in most cases is paid for out of the ordinary income and spending decisions of households. Under this approach, routine medical expenses before a person develops higher

cost ailments are paid by households out of its income. These expenses are paid by insured households, not their insurers, because those households have a high deductible on their health insurance. Further, when health care costs grow more expensive, households continue to be partially exposed to those higher costs due to a higher co-payment schedule.

Faced with higher deductibles and co-payment schedules, households are expected to more closely monitor health care spending, probably restraining cost growth. But, even if costs grow unabated, society could be confident that the continued growth in health care spending simply reflected consumer decisions about how to spend their money in an unsubsidized setting. To make a broader point, with higher deductibles and co-payments, health care insurance will become just that: insurance that makes payments in cases when persons are unfortunate enough to be struck by ailments (or previously had been struck by ailments) face large medical expenses. But, households will pay for the ordinary maintenance and modest-cost treatments of their own health care.

This is a market response to the subsidized nature of health care and the market failures endemic in insurance. Unsurprisingly, the private sector has begun to implement this market approach. Specifically, higher deductible and co-payment insurance has become more common as health care costs (and therefore, health insurance costs) have continued to grow. For example, according to the Kaiser Family Foundation,[22] 10 percent of persons with single-coverage had at least a $1,000 deductible in 2006, but by 2009 that share had risen to 22 percent and to 27 percent in 2010. Similar trends are occurring with family coverage plans.

As is often the case, the private sector has discovered a more efficient pricing and payment mechanism for a service. The question is: will the government and its policies follow the lead of the private sector? It is important that government do so given that many states are on an unsustainable fiscal path (Miron, 2011).[23] Several recommendations are made below to encourage the government and government policy to adopt this market trend.

The general recommendation is that public health insurance programs and regulations (such as mandates) should be modified to reflect an emphasis on health care insurance that is insurance rather an instrument for paying for ongoing, routine medical costs. In particular, it is recommended that the State of Nebraska work with employees to alter health insurance programs for public employees to include significantly larger deductibles and co-payments. Such payments could be pursued as a cost saving mechanism but the primary goal would be to reform health insurance. Therefore, employees might be compensated with faster wage growth, or other approaches. It is further recommended that the State of Nebraska reduce health care mandates, with an emphasis on reducing mandates that are most focused on medical tests and recurring, regular health care costs.

10) Allow Charter Schools in Nebraska

Education is a key determinant of state economic performance. States with a more educated workforce have higher levels of real per capita income. Further, there is evidence that states with a more educated workforce have faster economic growth. A variety of researchers have documented that both metropolitan and non-metropolitan areas with a more educated workforce experience faster economic growth as measured by either employment or income growth (Hammond and Thompson, 2009; Shapiro, 2006; Moretti, 2004; and Glaeser et al.; 1995; 2001).[24] Thus, policies that improve the education system and education outcomes within states can make a critical contribution to state economic growth.

Greater education freedom is a policy that improves the education system and education outcomes. This is why the American Legislative Exchange Council (ALEC) made Education Freedom one of its key measures of the regulatory burden in states. From a market perspective, education freedom is a measure of the ability of parents to choose among alternative schools for their children, and a measure of whether alternatives are present within a state. This education freedom concept therefore aligns with the benefits of a market outcome.

The ALEC measure of Education Freedom scored Nebraska as a state with an above-median level of education freedom. This is not surprising given that Nebraska parents are allowed to choose among public schools. But, choice remains incomplete in Nebraska. Nebraska parents lack one key choice available in many

states. Nebraskans do not have the option to send their children to public charter schools. Public charter schools are schools developed by interested groups such as teachers, parents, or community groups but are public schools that have open-enrollment, and do not charge tuition. As such, charter schools represent another option for parents.[25] Around the nation, there are over 5,200 charter schools serving over 1.5 million students.[26] The introduction of charter schools in Nebraska would complete the mission that Nebraska started to provide true choice among public schools and home schooling options.

By expanding education options, charter schools can also improve education outcomes . For example, Hoxby, Murarka, and Kang, 2009; Bettinger (2005) and Booker, et al. (2008) find evidence that charter schools yield improved education achievement or education attainment.[27]

The public charter schools option also may increase competition in public education, potentially improving the performance of other public schools. However, both theoretical and empirical evidence finds mixed results on this point (Hoxby, 2003; Cardon, 2003; Bettinger, 2005).[28] Finally, charter schools can help reduce public employee retirement costs if charter schools are allowed to form independent retirement plans, particularly defined-contribution rather than defined-benefit retirement plans.

Thus, while it is unknown how much charter schools would improve public education in Nebraska, the evidence suggests that at a minimum there would be gains for some students. Further, even marginal improvements in education outcomes would have substantial benefits for economic growth in Nebraska. Such potential gains are worth pursuing. As a result, it is recommended that Nebraska join the 40 states that already offer a charter school option.[29] However, it is not recommended that the State of Nebraska provide revolving loan funds or other such financial incentives to help with the foundation of charter schools. Private sector donors should provide these incentives.

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Endnotes:

1 By definition, this sunset and re-authorization process would not apply to across-the-board tax rate cuts.

2 We also utilize this 2007 data since the data are sufficiently detailed to be a source of data for property tax revenue and expenditures, which will be presented later.

3 Laffer, Arthur and Stephan Moore, 2007. Rich States Poor State: ALEC-Laffer State Economic Competitiveness Index. Washington, DC: American Legislative Exchange Council.

4 Eric Thompson, Ernie Goss and Nick Niemann, 2009. *An Action Plan for Growing Nebraska*. A Report prepared for the Nebraska Renaissance Group.

5 Faster economic growth in the long-run may help alleviate or address some of the social goals that regulations are designed to address.

6 Bunce, VC and JP Wieske, 2010. *Health Insurance Mandates in the States 2010*. Council for Affordable Health Care.

7 24 of the 28 would raise costs by an expected 1 to 3 percent, while 2, in Vitro Fertilization and Dental coverage, would raise it by 3 to 5 percent and another 2, mental health parity and prescription drugs, would raise it by 5 to 10 percent. Like 2/3rds of the states, Nebraska did not have an in-vitro fertilization mandate but did have a dental mandate. Like nearly all states, Nebraska had a mental health parity mandate but not a prescription drug mandate.

8 Thompson, Eric, David Rosenbaum, and Viktor Khanzhyn, 2010. "Growth Hills and Optimal Government Spending: Location and Movement along the Curve," Presented at the 2010 Mid-Continent Regional Science Associations Meetings, St Louis, Missouri (June).
Brown, Stephen, Kathy Hayes, and Lori Taylor, 2003. "State and Local Policy, Factor Markets, and Regional Growth," *The Review of Regional Studies*. 33(1): 40-60.

9 Spending for other amenities such as the arts are included in the other direct expenditures category and therefore cannot be separated for inclusion here.

10 Varshnay, Sanjay and Dennis Tootelian, 2009. *Cost of State Regulations on California Small Business Study*. Varshnay and Associates. (September).

11 Crain, W. Mark, 2005. *The Impact of Regulatory Costs on Small Firms*. Office of Advocacy, Small Business Administration. SBHQ-03-M-0522 (September).

12 Washington Policy Center, 2011. *Legislative Memo: 2011 Recommendations for Improving Washington State's Small Business Climate*. (January)

13 The State of Nebraska may determine that it is inappropriate to provide a sunset date in the case of some regulations. For example, sunset provisions may not be appropriate for regulations that are required to comply with federal law.

14 By definition, this sunset and re-authorization process would not apply to across-the-board tax rate cuts.

15 Gilroy, Leonard, Harris Kenny, Lisa Snell, Shirley Ybarra, and Tyler Millhouse, 2011. *Annual Privatization Report 2010: State Government Privatization*. The Reason Foundation (February).

16 Taxes in Nebraska, Property Taxes. Available at http://nebraskalegislature.gov/app_rev/source/proptax.htm Accessed August 12, 2011.

17 For a different perspective on this issue, see Johnson, Bruce, Anil Giri, Roger Wilson, Sara Van Newkirk, 2011. *A Study of Returns to Agricultural Land Classes in Nebraska in Relation to Assessed Values*. Department of Agricultural Economics, University of Nebraska-Lincoln, Report Number 188 (April).

18 Ultimately, the new tax system would yield greater economic growth, which would increase revenue. But, the immediate influence would not impact this growth.

19 Thompson, Eric, Roger Butters, and Ziwen Zheng, 2011. "Community Marketing for Population Growth: The Role of Matching in an Example from Nebraska and Michigan," Presented at the 2011 Mid-Continent Regional Science Association Meetings, Detroit, Michigan, June 2011.

20 Further, all of the other recommendations in this report could indirectly help improve domestic migration by improving the economic climate in Nebraska.

21 Thompson, Eric C., 2005. *The Impact of Growth on Quality of Life and Fiscal Conditions in Lincoln, Nebraska*. University of Nebraska-Lincoln, Bureau of Business Research (May).

22 Kaiser Family Foundation, *Employer Health Benefits 2010 Annual Survey*.

23 Miron, Jeffrey, 2011. *The Fiscal Health of U.S. States*. Working Paper 11-33 (August), Mercatus Center, George Mason University.

24 Hammond, G. and E. Thompson, 2009. "Determinants of Income Growth in Metropolitan and Non-Metropolitan Labor Markets," *American Journal of Agricultural Economics*. 90(3) (2008): 783-793. Shapiro, J. "Smart Cities: Quality of Life, Productivity, and the Growth Effects of Human Capital." *The Review of Economics and Statistics*, 88(2), 2006, 324-335.
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25 Murray, Vicki, 2010. *Race to the Top – Can We Compete: Nebraska's Charter School Initiative*. Policy Study, Platte Institute for Economic Research. (January).

26 http://www.charterschoolstoday.com/charter-school-legislation.php. Accessed August 10,2011.

27 Hoxby, Caroline M., Sonali Mururak, and Jenny Kang, 2009. "How New York City's Charter Schools Affect Achievement," Cambridge, MA: New York City Charter Schools Evaluation Projects (September).
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28 Hoxby, Caroline, 2003. "School Choice and School Productivity: Could School Choice be a Tide that Lifts All Boats?" *The Economics of School Choice* Caroline Hoxby (editor). Chicago, Illinois: University of Chicago Press.
Cardon, James H., 2003. "Strategic quality choice and charter schools," *Journal of Public Economics*. 87: 729-737.
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29 http://www.charterschoolstoday.com/charter-school-legislation.php. Accessed August 10,2011.

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