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State and Local Government Budgets in Nebraska*

The last in a series of nine NebGuides on state funding and sources, this publication discusses state and local subdivision budget preparation and implementation.

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All levels of government must plan for the future, making decisions about what services to provide and how to pay for them. This process, called budgeting, is often difficult because "worthy causes" exceed available funds.

According to Nebraska law, both the state government and local government subdivisions must establish annual operating budgets. Moreover, certain procedures must be followed in the development of these budgets. The budgeting process is precisely defined to ensure that citizens have an opportunity to express their preferences on matters relating to public revenues and expenditures.

The State Budgeting Process

The annual budgeting process for the state of Nebraska begins about one year prior to the first day of the new fiscal year. For example, state agencies began work on the 1985-86 budget (which goes into effect on July 1, 1985) during summer, 1984. Acting on behalf of the Governor, the Department of Administrative Services, in late June or early July, asks each state agency, board and commission (hereafter, "agency") to prepare an estimate of the funds needed to carry out its functions in the following fiscal year.

Each of the more than 80 agencies is required to formally present its budget request to the Governor by September 15. Among those that make budget proposals are 26 "code agencies," a designation used to indicate that the Governor has appointed the chief administrator for the agency. This designation is important for purposes of this discussion because the Governor may be able to influence budget proposals that come from code agencies. In contrast, because of less prior influence on budget proposals, the Governor is more likely to propose changes in non-code agency requests after they reach his desk in mid-September.

The Governor, on the basis of agency requests, develops a proposed state budget and presents it to the
Legislature the following January. The proposed budget is, figuratively speaking, the Governor's blueprint for the state. It provides an opportunity for the state's chief executive officer to propose expansion in some areas, modification in others, and contraction in still others. Technical assistance in preparing the Governor's budget proposal is provided by the Budget Division of the Department of Administrative Services.

The Legislature uses the Governor's proposed budget more to provide guidelines than as a document to be approved or rejected without modification.

Early in the legislative session, the Chairman of the Committee on Appropriations schedules hearings on the state budget. State agency heads will again be asked to "make the case" for their budget requests. These agency requests may differ from what has been proposed in the Governor's budget. This is especially likely if a non-code agency has had its original budget request reduced by the Governor. Concerned citizens can also testify before the Appropriations Committee about budget matters that are of concern to them.

After the hearings are completed, the Appropriations Committee carefully considers agency requests, both individually and collectively. From the perspective of individual agencies, the Committee must be concerned with proposing adequate appropriations for the agency to carry out its functions. At the same time, the Appropriations Committee must be sensitive to the overall spending total that will result from the agency budgets.

Budget proposals are generally presented for consideration by the full Legislature in several appropriations bills. The largest appropriations bill provides for ongoing "agency operations and state aid." For example, in the 1984 regular legislative session, LB 1128 authorized over 95 percent of all funding that was ultimately approved. Other appropriations bills authorized funds for capital construction and numerous miscellaneous items, including the funding of new programs approved during the legislative session.

The budget approved by the Legislature (through appropriations bills) need not--and seldom does--fully agree with the Governor's budget proposals. However, if a proposed legislative appropriation exceeds that in the Governor's budget, enactment of that appropriation requires a three-fifths approval vote by the Legislature.

Subsequent to passage of the appropriations, the Governor has the opportunity to veto the entire bill or "line item veto" specific appropriations within the bill. The line-item veto allows the Governor to eliminate or reduce specific amounts within the bill without vetoing the entire bill. The Legislature can then override any veto of an entire appropriations bill, or any line-item veto, with a three-fifths majority vote.

These provisions are intended to provide a balance between the legislative and executive branches of state government during the budget-making process. The Governor is protected from a simple legislative majority exceeding his budget proposals. The Legislature, in contrast, can determine its own course, as long as it has approval from three-fifths of its members. An additional reason for restrictive budgeting provisions is that the Nebraska Constitution prohibits state government from contracting debts greater than $100,000. Thus, the Governor and Legislature must carefully balance prospective revenues and expenditures during the budgeting process.

Key Elements of the State Budget
Budget decisions made by the Governor and the Legislature are concerned primarily with General Fund revenues and expenditures. The General Fund is used to account for state expenditures that are financed from taxes and other general revenues of the state. Typically, about 75 percent of the General Fund revenues come from individual income taxes and general sales/use taxes. Other sources of General Fund revenues include corporate income taxes, tobacco product taxes, liquor taxes, interest on investments, and miscellaneous taxes.

Expenditures from the General Fund cover a wide range of state government functions. Approximately half of the General Fund goes into each of two broad areas: operations and state aid. A relatively small proportion of the General Fund (two percent or less) is designated for capital construction.

For fiscal year 1984-85, the Legislature made General Fund appropriations of $823.4 million dollars (Table I). State government operations accounted for $395.8 million of this total. Over 40 percent of the funds expected to be spent for operations were designated for the University of Nebraska and the four state colleges. The balance will be used for the operation of other state agencies including the court system, correctional facilities, and mental health and mental retardation institutions.

<table>
<thead>
<tr>
<th>Function</th>
<th>Appropriationa ($ mil.)</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>395.8</td>
<td>48.1</td>
</tr>
<tr>
<td>State Aid</td>
<td>414.3</td>
<td>50.3</td>
</tr>
<tr>
<td>Construction</td>
<td>13.2</td>
<td>1.6</td>
</tr>
<tr>
<td>----TOTAL</td>
<td>823.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

aSum of individual items does not add to total because of rounding errors.

State aid appropriations of $414.3 million for 1984-85 will be primarily directed to five areas. The largest component ($183.6 million) is state aid to local school districts, including funds for special education, drivers education, and vocational education. The Department of Social Services will distribute the second largest amount ($99.1 million), primarily in the form of income maintenance and medical assistance programs. Other important aid programs include those that go for personal property tax relief, to technical community colleges and to mental retardation regions.

Capital construction appropriations of $13.2 million in 1984-85 will go for a number of (partial) projects, including an animal science complex at the University of Nebraska, an activity center at Chadron State College and a renovation project at the Beatrice State Developmental Center. Large construction projects often involve General Fund commitments for a period of several years.

While the General Fund receives primary emphasis in the state budget (because it depends on tax revenues), it still accounts for less than half of all funds available to state government (Table II).
The second largest source of financing for state government is Cash Funds. These Funds are used to account for state expenditures that are financed from licenses, fees, permits and special taxes. In contrast to the General Fund, Cash Funds are used for expenditures specifically related to the fees or taxes being levied. For example, state taxes on motor fuels are deposited in a Cash Fund and used for road maintenance and construction. In 1984-85, expenditures from Cash Funds are expected to be slightly more than $500 million.

The third ranking funding source is Federal Funds. These Funds are used to account for state expenditures financed from monies received from the federal government through grants, letters of credit and contracts for specific purposes. In 1984-85, about two-thirds of the $390 million expected to be received from these Funds will go for human resources programs.

Other budgeted funds include Construction Funds and the Revolving Funds. These Funds will together finance around $160 million in expenditures in 1984-85. The Construction Fund includes that portion of the tobacco products tax which is dedicated for capital construction. Revolving Funds are used to finance and account for goods and services furnished by a designated agency to another agency within state government.

The Local Budgeting Process

Counties, municipalities, school districts and special districts in Nebraska plan their annual budgets under operating procedures established by the state's uniform budget law. The purpose of this law is to establish a timetable for the budget process that is applicable to all units of local government.

The uniform budget law benefits both citizens and those responsible for administering and collecting local property taxes. Citizens have a better perception of total local government revenue needs when all subdivisions make budget requests during the same time frame. County clerks need all subdivision spending requests in order to compute the levy that determines the total property taxes to be paid by each taxpayer. And, county treasurers benefit from the uniform budget act because it allows for simultaneous collection of taxes for all local subdivisions.
Local subdivisions do not necessarily develop budgets for identical fiscal years, even though the budgeting process takes place during the same general time period. For example, all county budgets in Nebraska are developed for fiscal years that begin on July 1, while school district budgets are for fiscal years beginning on September 1.

Each local subdivision must abide by a specific timetable in the budget-setting process.

The first key date is August 1, when a copy of the proposed budget for the ensuing fiscal year must be filed with the secretary or clerk of the local subdivision. The budget sets forth (1) all proposed expenditures for the administration, operation and maintenance of all offices, departments, activities, funds and institutions of the subdivision; (2) the actual or estimated operating deficits from prior years; (3) all interest and debt redemption charges for the period covered by the budget; (4) all expenditures for capital projects to be undertaken or executed during the period, including expenditures for local improvements which may be paid for in whole or in part by special assessments and operating reserves; and (5) the anticipated income, including all fees, license taxes, taxes to be levied and all other means of financing the proposed expenditures for the period covered by the budget.

Preparation of the proposed budget usually begins several months prior to the August 1 deadline. Both elected officials (e.g., county boards and school boards) and their staffs participate in this process, with final decisions on proposed expenditures being the responsibility of elected officials. During the budget-making process, the county assessor provides the current valuation of all property subject to levy for each local subdivision. The county clerk, in turn, uses the valuation to determine what the tax rate would have to be to raise a specified amount of property tax revenue. In general, most local subdivisions do not want to raise taxes any more than absolutely necessary to provide needed services.

Subsequent to the filing of the proposed budget statement, a summary of the proposed budget is prepared for distribution to interested citizens, and a public hearing is scheduled. Notice of the hearing must be published at least five days prior to the hearing (unless federal revenue sharing funds are part of the budget, in which case a ten-day notice is required).

The public hearing is designed to provide for citizen comments relative to the services to be provided and how they will be funded. Public participation is encouraged and is helpful to the governing body of the local subdivision in establishing the financial plan for the ensuing year.

After the public hearing, some changes may be made in the proposed budget. However, the final budget must be adopted by each local subdivision by August 25. The final budget is then resubmitted to the county clerk and the State Auditor of Public Accounts.

The county clerk determines the property tax levy that will be necessary to support each subdivision, given the final budget for each, and the final assessed property value. Then, prior to September 15, the county board meets and certifies those levies. The county board has no veto power over subdivision budgets, so the certification process is essentially one of checking for any procedural errors that may have been made during the budgeting process.

Local subdivisions do not use the same categorization of "funds" for the purpose of designating the funding source as does state government. The county general fund, for example, may contain monies from several sources, not just those which come from their own taxing authority. Expenditures, however, are precisely designated, just as for state government.

A Concluding Thought
Both state and local governments in Nebraska follow exacting procedures for preparing annual operating budgets. A knowledge of these procedures allows any concerned citizen to express an opinion--formally or informally--on budget matters. But even if a citizen fails to bring those who develop the budget to his/her point of view, some recourse is still available through the ballot box. In short, the opportunity to participate in decisions related to how much money should be spent for public goods and services is one of the fundamental tenets of a representative democracy.

Other NebGuides in this series are:

- G84-727, Financing State and Local Government in Nebraska: An Overview
- G84-729, Financing Roads, Streets and Highways in Nebraska
- G84-730, Financing Social Services in Nebraska
- G84-731, Financing Public Institutions in Nebraska
- G84-732, Property Taxes in Nebraska
- G84-733, General Sales and Use Taxes in Nebraska
- G84-734, State Income Taxes in Nebraska

Paper copies may be obtained from your Cooperative Extension office.

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