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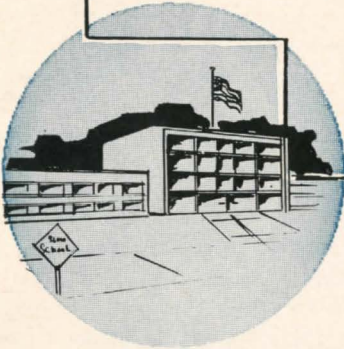
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NEBRASKA TAXES

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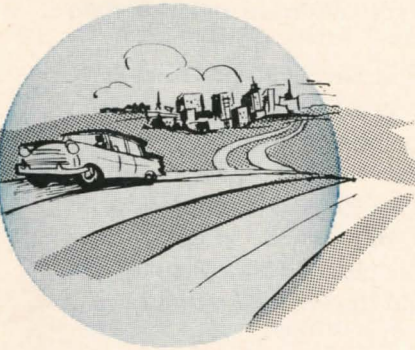
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II

Public Services: Cost and Financing



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Foreword

Nebraska citizens as individuals, as members of organizations, as business managers, as legislators, and as administrators of public institutions and agencies are concerned with important state and local public finance problems.

These problems are: demands for more and better public services; the numbers and types of local governmental units; the increasing costs of state and local government; and the continued reliance upon the property tax for revenue.

Many individuals and groups who recognize these problems have asked for additional information on the possibilities and limitations of alternative courses of action for solving these problems.

The objective of this series of four circulars on state and local public finance in Nebraska is to provide the citizens of the state with factual information on the expenditure and revenue systems of the state and local governments, on basic principles of public finance, and on the advantages and disadvantages of alternative methods of obtaining revenue for public purposes.

The following circulars are included in the series under the general heading *Let's Discuss Nebraska Taxes*:

- EC 62-817A I. Role of Government in Our Society
- EC 62-817B II. Public Services: Cost and Financing
- EC 62-817C III. Basic Principles of Public Finance
- EC 62-817 D IV. An Evaluation of Major Taxes

Let's Discuss:

NEBRASKA TAXES

II. Public Services: Cost and Financing

by

Everett E. Peterson and Fred L. Olson, Agricultural Economists,
and Jack D. Timmons, Graduate Assistant, Political Science

Introduction

Although government activities are many and varied, only a few take the largest part of total money spent. Most costly is national defense which, in 1960, totalled over \$60 billion or about 46 percent of general expenditures for all levels of government.

General expenditures include all except those for public utilities, government-owned liquor stores, and insurance trusts (public-employee retirement and other social insurance programs). Since defense is almost entirely a federal government cost, this function is excluded here in comparing the spending patterns of the three levels of government. The other major cost items of federal, state and local governments are education, highways, conservation and development of natural resources, health and hospitals, and public welfare.¹

Non-defense spending is divided almost equally among the three levels of government, according to the origin of funds. The federal government spent \$22.8 billion in 1960, state governments \$21.1 billion, and local governments \$24.4 billion of their own funds. Although the three levels of government raise nearly equal amounts of revenue for public services, biggest direct expenditures are by local governments. This is because of the grants which they receive from federal and state revenues. After federal grants-in-aid in 1960 had been distributed to the state and local governments which actually provided the various public services, we find that the local governments spent directly \$33.9 billion, the state governments \$17.9 billion, and the federal government \$15.0 billion. Over one-half of the non-defense spending, then, was by local governments.

The five major cost items mentioned above are about 69 percent

¹ Governmental expenditures comparisons drawn from: Bureau of the Census, *Summary of Governmental Finances in 1960* and *State Government Finances in 1960*.

of the total non-defense expenditures of government. The most important of these is education. In 1960, \$19.4 billion was spent by the various levels of government for this function. Most of this was spent by local governments, with the federal government providing about \$1.6 billion. Over one-half of the federal total was in the form of grants-in-aid to state and local governments. \$402 million was spent for veterans' educational benefits. The federal share of education costs was only about 8 percent of the total.

Direct expenditures for education by state governments were about \$3.5 billion, mostly for higher education. Additional expenditures for grants-in-aid to local governments were about \$5 billion. Most state spending for public schools is in the form of aid payments to local governments. A few states, such as North Carolina, Alaska, Delaware, and Maine, finance many of their local schools directly. Direct state spending for higher education totalled almost \$3 billion. It includes such institutions as universities, teachers colleges and vocational training schools.

Direct spending by local governments for education was over \$15 billion in 1960. This is 77 percent of the total spent for education in the United States that year. About \$10 billion, or one-half of the total for all governments for all purposes, was provided from local funds. Local control of elementary and secondary public education has been a tradition in the United States. Direct spending for elementary and secondary education totals \$15.1 billion a year and local governments spend \$14.8 billion of that amount. Almost one-half of the total local government budget is for education. Nebraska local government expenditures reflect very much this same pattern.

The second most important expenditure by all levels of government is for highways. This includes building and maintaining toll turnpikes, bridges, tunnels, ferries, roads and streets as well as arterial highways. These expenditures totalled \$9.6 billion in 1960. Direct federal expenditures for highways are relatively minor, amounting in 1960 to only \$137 million, but grants-in-aid to state and local governments were \$2.9 billion. State government highway expenditures were \$6.1 billion directly and \$1.2 billion in grants to local governments. Local governments spent \$3.4 billion for this function, including federal and state grants.

Most development of natural resources is by the federal government. Only 14 percent of these costs are directly financed or administered by state and local governments. Expenditures for such things as forest preservation, development of minerals, soil conservation, and irrigation for 1960 totalled about \$8.4 billion.

Health and hospital expenditures for 1960 totalled \$5.2 billion, the third most important non-defense expense of government. Most of the \$1.4 billion spent for this purpose by the federal government was for veterans' hospitals or other veterans' health benefits and was included in defense costs. State and local government spending for this function was about \$1.9 billion at each level. Expenditures for public health programs other than for hospitals totalled about \$1 billion.

The term "public welfare" as used here includes only those activities which provide institutional and non-institutional care for the needy and the administration of that assistance. Approximately \$4.5 billion was spent by all levels of government for such purposes in 1960. The federal government provided almost half of the total in the form of grants-in-aid to state and local governments. Direct federal spending in this area was minor.

Overall comparisons of state and local expenditures are limited by the variation from state to state in the extent to which they administer welfare directly or delegate the responsibility to the local governments. In 1960, state governments spent \$2.2 billion directly for public welfare and made \$1.5 billion worth of grants to local governments (including federal aid). Local governments spent \$2.2 billion directly.

Two-thirds of public welfare expenditures in 1960 were for the "categorical" programs of old age assistance, aid to dependent children, aid to the blind, and aid to the disabled. The administration of welfare and institutional care amounted to about \$1 billion. General relief, including such things as burial services, general medical care, and other services, comprises about one-tenth of the total cost of public welfare and is wholly financed by state and local sources.

The remaining 31 percent of non-defense expenditures are divided among the hundreds of other activities of government. Other functions which cost more than \$1 billion are: police protection, which amounted to \$2 billion in 1960 (\$1.6 billion by local governments); sanitation, including sewage disposal, refuse collection and street cleaning, \$1.7 billion; local fire protection, about \$1.0 billion; air transportation facilities and subsidies, about \$1.2 billion; and general control, including expenditures for legislative bodies, courts, and administrative operation, about \$2.9 billion.

Of the five major non-defense functions only public welfare and the development of natural resources depend upon the federal government for the major share of funds. Education and highway functions generally depend heavily on state and local resources. This should be kept in mind when considering the costs of state and local government in Nebraska.

Table 1—Nebraska State Government Expenditures, 1947-1963, Dollars

Biennium	Total	Highways	Education	Welfare	Other
(Millions of Dollars)					
1947-49	133.0	39.1	28.1	39.6	26.2
1949-51	151.4	40.7	35.8	41.4	33.5
1951-53	167.9	48.6	42.5	42.0	34.8
1953-55	176.2	51.3	48.5	37.5	38.9
1955-57	228.6	77.9	59.7	40.8	50.2
1957-59	264.7	100.2	65.3	45.7	53.5
1959-61	296.4	126.3	55.9	50.0	64.2
1961-63 ^a	330.6	147.3	64.3	50.4	68.6

^a Estimated from appropriations.

Sources: Nebraska State Tax Commissioner's Reports, 1948-1961.
Nebraska State Auditor's Reports, 1948-1960.

Nebraska State Government: Services and Costs

Roughly 80 percent of the cost of state government in Nebraska is for highways, education, and public welfare. This proportion has remained quite stable over the past 15 years, although the distribution among the three has varied to some extent. Expenditures for each biennium since 1947 are shown by major function in Table 1. The percentages of total expenditures for each of these functions by budget periods are given in Table 2.

The category designated "other" in the table includes protection, correctional institutions, aeronautics, health and hospitals and the many functions included under general control. Significantly, these have been a quite stable proportion of the total state spending. Although actual spending for all functions has increased steadily, there has been only 1 percent variation in the proportion of total expenditures for all functions other than education, highways and public welfare.

Highway spending has shown the most marked increase in Nebraska. Since 1947 it has steadily increased from less than one-third to

Table 2—Nebraska State Government Expenditures, 1947-1963, Percent

Biennium	Major Functions as Percent of Total Expenditures				
	Total	Highways	Education	Welfare	Other
1947-49	100.0%	30.0%	21.6%	28.3%	20.1%
1949-51	100.0	26.8	23.7	27.4	22.1
1951-53	100.0	29.0	25.3	25.0	20.7
1953-55	100.0	29.1	27.5	21.3	22.1
1955-57	100.0	34.1	26.1	17.8	22.0
1957-59	100.0	37.8	24.7	17.3	20.2
1959-61	100.0	42.5	18.9	16.9	21.7
1961-63 ^a	100.0	44.6	19.4	15.2	20.8

^a Estimated from appropriations.

nearly one-half of total state expenditures. Federal grants-in-aid, which are included in the totals of all functions, have increased by a significant amount since 1947. This is particularly important in the highway budget where the proportion of federal funds has increased from 27 percent to 56 percent. State highway spending from non-federal funds, then, has increased at a slower rate than is indicated by direct spending totals.

The portion of the state budget devoted to public welfare has generally declined since 1947. Education costs increased proportionally until 1955, but have since decreased to slightly less than one-fifth of total expenditures. It should be noted that Nebraska expenditures do not entirely follow national trends. Nationally, direct state government expenditure for education is greater than for highways, while public welfare spending is less than one-half of that for either highways or education. In Nebraska, education and public welfare costs are about the same and highway expenditures now equal the combined total of the other two. This is largely the result of the emphasis on local control and support of education in the state. State expenditures are almost entirely for higher education with very little aid to local schools.

Local Government Services and Costs ²

In 1960, all units of government in Nebraska spent an estimated \$380 million (Table 3). Excluding state aid, but including a small amount of direct federal-local aid, local governmental units spent nearly two-thirds of the total. This indicates that Nebraska depends more heavily upon local government to provide services than is the rule in most other states. With this emphasis on local government, it is not surprising to find that local government expenditures have risen more rapidly than have state government expenditures.

The average annual increase of state government expenditures between 1957 and 1960 was \$22.1 million, or 19 percent. During the same period, local government expenditures increased by \$67 million per year or 38.5 percent. The increase in local government spending thus was twice that of state government.

The two major items of local government spending are education and roads and streets. These two items take over 66 percent of the total local government budget (Table 4). Education is easily the most important item, amounting to nearly half of the total local government expenditures and over 80 percent of all the expenditures for education

² See the appendix to this circular for county comparisons of local government costs.

**Table 3—Nebraska Government Expenditures:
State and Local Government Comparisons, 1960**

Function	Total	State	Local
(Millions of Dollars)			
Education	\$144.4	\$ 27.1	\$117.3
Highways	101.9	57.2	44.7
Health and Hospitals	27.3	12.2	15.1
Public Welfare	25.3	22.8	2.5
General Control	16.2	7.4	8.8
Protection	13.4	7.7	5.7
Sanitation	10.0	0.0	10.0
Interest on Debt	5.0	0.0	5.0
All Other	36.1	1.0	35.1
Total	\$379.6	\$135.4	\$244.2

Sources: Bureau of Census, *Summary of Government Finances in 1960*, G-GF-60-No. 2.
Nebraska State Tax Commissioner, *Annual Report* (1960).

in the state (Table 5). Most of the local government education costs are for school districts providing primary, elementary and secondary education. There are, however, four junior colleges and one university (Omaha) also financed by local funds. With the increasing emphasis on education in our society there is little reason to expect expenditures for this function to decrease and, with a growing population, good reason for expecting them to increase.

Streets and roads are the next most important service, in terms of cost, provided by local governments. This function accounts for almost one-fifth of local government expenditures. Part is financed by a share of the state motor fuels tax, but most is financed from the general property tax and by special assessments. State expenditures are somewhat larger for highways, but have larger federal aids and a major portion of the gas tax. This means that the property tax carries a smaller portion of total highway costs on the state level than on the local level. Expenditures on this function are also likely to continue

**Table 4—Percentage Comparisons of State and Local Government Expenditures:
By Function, 1960**

Function	State	Local	State and Local Total
Education	20.1%	48.0%	38.1%
Highways	42.2	18.3	26.8
Health and Hospitals	9.1	6.2	7.2
Public Welfare	16.8	1.0	6.7
General Control	5.5	3.6	4.3
Protection	5.6	2.3	3.5
Sanitation	0.0	4.1	2.6
Interest on Debt	0.0	2.1	1.3
All Other	0.7	14.4	9.5
Total	100.0%	100.0%	100.0%

Table 5—State and Local Expenditures as Percent of Total Government Spending:
By Function, 1960

Function	State	Local	Total State and Local
Education	18.8%	81.2%	100%
Highways	56.1	43.9	100
Health and Hospitals	44.7	55.3	100
Public Welfare	90.1	9.9	100
General Control	45.7	54.3	100
Protection	57.5	42.5	100
Sanitation	0.0	100.0	100
Interest on Debt	0.0	100.0	100
All Other	2.8	97.2	100

to increase so long as the number of automobiles and trucks continues to increase and costs of materials and labor continue to rise.

Although expenditures for functions other than highways and education comprise less than one-third of the total, many of them are more important to certain areas of the state. For example, the special districts created to provide irrigation, sanitation, drainage, fire protection and many other specific services are growing in number and increasing public expenditure totals. The number of special districts has increased by nearly one-half in the past ten years. Although the mill levy is small for most of them, it becomes important when several of these districts are operating in the same area.

Increased expenditures are the result of increased costs and increased demand for services. Also, since World War II, the states and local governments have spent large sums to make up for projects postponed during depression and war years. The general price level has nearly doubled since 1939. Consequently, a given level of governmental service costs much more. The cost may not have doubled for government services because salaries in government generally lag behind those in private industry, and other prices for services and materials may not change in the same proportion as general market costs.

Nebraska population has increased by 10 percent since 1948. Although this is below the increase for many other states, it does mean greater expenditures for public services. There are more children to educate, more people using the highways and streets, greater welfare needs, and, in general, greater demands upon all of the services which are provided by government. Personal income received by Nebraskans has doubled since 1946, from \$1.5 billion then to about \$3.0 billion in 1961. This partially offsets the effect of increased private costs on the individual.

Increases caused by rising costs and by larger populations have a significant effect upon services which are already offered by govern-

ment. In addition to these factors there is constant pressure exerted for new services from government. The 1961 Budget Committee Message to the Legislature states: "In the last analysis it is they—the citizens of Nebraska—who determine the size of the state budget. The people should realize, however, that they cannot have their cake and eat it too—they cannot continue to enjoy extended state services and a lower tax bill at the same time . . . as government continues to increase in influence, pressures mount to expand the present services and add new programs. The dilemma facing state representatives is one of conflicting pressures. On the one hand, there is sentiment to hold down expenditures; on the other, there exists the obligation to provide funds for essential services."

The above statement points out one of the most difficult problems of the legislative representatives of Nebraska or of any unit of government. The adequacy of present and proposed programs and services involves value judgments which can only be determined through the political process. The legislator must try to determine whether increased service will provide benefits which will justify the added expenditure. He must base his decision on his own judgment and on the reflected judgment of his constituents. The voter should inform himself on issues and make his wishes known to his legislators. Eliminating or restricting government services simply to keep the tax bill down is not necessarily an efficient use of resources. Even though a government service may be productive, other factors must be considered: Can the service be administered efficiently by a government agency? How will it affect the private sector of the economy? What is the value of the service to society? How will it affect the individual and his freedom of action? These are among the factors to be considered before deciding whether to support or oppose a specific public program.

Some Interstate Comparisons

Comparing Nebraska expenditures with those of neighboring states gives some perspective on the services offered and the amount of emphasis placed on each. However, there are limitations to this procedure. The quality and quantity of services should be decided on the basis of choices available, their cost and the need for them. Spending simply for the sake of keeping up with Iowa, Kansas, Colorado, or the United States average would be as unrealistic as for an individual to buy a new car or a new home simply because his neighbor had done so.

Problems, desires, attitudes, characteristics of population, income base, and other factors which will affect the need for services and the ability to pay for them vary from area to area. Patterns of expendi-

tures are generally more useful comparisons between states than the level of spending because of variations in population and area. Either per capita costs or percentage distribution of spending can show the general patterns of expenditures.

This discussion will be based primarily upon the per capita cost of various services in Nebraska and her bordering states. Since the figures used are from one year only, they may reflect unusually high or low expenditures in some states for that year. Table 6 shows per capita expenditures and the percentage distribution of expenditures by function for Nebraska and bordering states.

Nebraska was second from the bottom in total expenditures in this region and also second from the bottom in per capita spending on education and welfare. Notice that Wyoming has high per capita costs, particularly in highways, education, and sanitation, and is also a very sparsely populated state. Wyoming has the second largest land area in the region but the smallest population. All of the Plains States tend to have proportionately higher per capita expenditures for highways than the United States average because of sparse population.

The only major differences in spending apparent among the states in the Nebraska area are in welfare, where Colorado and Missouri spend considerably more than do the other states. The Colorado sales tax can be spent only for welfare, which partially explains the size of the program in that state. Generally, Nebraska is below the median in most functions but not immoderately so.

Functional Comparisons

A comparison of expenditures within the major functions shows greater differences than total expenditures indicate. In education, the most important function for all of the states, per pupil costs in Nebraska are considerably below the costs in other states in the region (Table 7). This is true, even though Nebraska has more school districts than any other state in the nation. In small districts, administrative costs tend to be higher and the low pupil-teacher ratio increases instructional costs. These costs are offset in part by the low average teachers' salaries in Nebraska. As shown in Table 8, only South Dakota has lower salaries than Nebraska in this region. Nebraska salaries are \$500 or more below those of the other five states in the region—yet not one of those states pays salaries as high as the national average. In 1961-62, Nebraska classroom teacher salaries averaged \$4,160, over \$600 higher than in 1958-59; in the United States, the average was \$5,527, an increase of \$750.³

³ See the appendix for county comparisons of teachers per one thousand population and educational costs.

Table 6—Per Capita Expenditures of State and Local Governments, by Major Functions, Nebraska and Bordering States, 1960

State:	(1) Total	(2) Education	(3) Highways	(4) Welfare	(5) Health	(6) Protection	(7) Sanitation	(8) General Control	(9) Interest on Debt	(10) All Other
Expenditures:										
(1) NEBRASKA	\$269	\$102	\$ 72	\$ 18	\$ 19	\$ 9	\$ 7	\$ 12	\$ 4	\$ 26
(2) Colorado	344	141	56	49	21	15	6	16	7	33
(3) Iowa	294	109	84	24	21	10	7	11	3	25
(4) Kansas	290	114	73	24	18	10	5	12	8	26
(5) Missouri	232	82	41	33	19	12	4	9	5	27
(6) South Dakota	301	106	99	22	11	7	4	13	2	37
(7) Wyoming	454	172	140	16	30	12	16	16	5	47
(8) U. S. Average	288	104	52	25	21	16	9	12	9	40
Percentage Distribution:										
(9) NEBRASKA	100.0	37.9	26.8	6.7	7.0	3.3	2.6	4.5	1.5	9.7
(10) Colorado	100.0	41.0	16.3	14.3	6.1	4.4	1.7	4.6	2.0	9.6
(11) Iowa	100.0	37.1	28.6	8.2	7.1	3.4	2.4	3.7	1.0	8.5
(12) Kansas	100.0	39.3	25.2	8.3	6.2	3.4	1.7	4.1	2.8	9.0
(13) Missouri	100.0	35.3	17.7	14.2	8.2	5.2	1.7	3.9	2.2	11.6
(14) South Dakota	100.0	35.2	32.9	7.3	3.7	2.3	1.3	4.3	0.7	12.3
(15) Wyoming	100.0	37.9	30.8	3.5	6.6	2.7	3.5	3.5	1.1	10.4
(16) U. S. Average	100.0	36.1	18.0	8.7	7.3	5.6	3.1	4.2	3.1	13.9

Source: Governmental Finances in 1960, United States Bureau of the Census, G-GF 60-No. 2, September, 1961.

Table 7—Public School Expenditures Per Pupil, 1958-59

State	Current expense per pupil in average daily attendance
Nebraska	\$290
Colorado	355
Iowa	346
Kansas	330
Missouri	335
South Dakota	333
Wyoming	435
U. S. Average	\$340

Source: Book of States, Council of State Government, Chicago, Illinois, 1960-61, p. 292.

Table 8—Average Salaries of Instructional Staff and Classroom Teachers, 1958-59

State	(1) Total Instructional Staff ^a	(2)	(3)	(4)
		Classroom Teachers:		
		Elementary	Secondary	All
NEBRASKA	\$3,625	\$3,125	\$4,325	\$3,525
Colorado	4,700	4,400	4,700	4,525
Iowa	4,296	3,718	4,837	4,131
Kansas	4,270	3,855	4,445	4,138
Missouri	4,380	4,140	4,620	4,280
South Dakota	3,500	3,200	3,950	3,400
Wyoming	4,400	4,000	4,700	4,300
U. S. Average	\$4,935	\$4,575	\$5,110	\$4,775

^a Includes principals, supervisors, guidance counselors, psychologists, and classroom teachers.

Source: *The Book of the States, op. cit.*, p. 292.

Nebraska stands about in the middle of the scale in per capita cost for higher education and for local schools (Table 9). Colorado and Wyoming are well above the average for the region; again this is partly because of their large area and low population per square mile. Missouri is considerably below the regional and national averages in per capita expenditures for both higher education and in local schools.

Table 9—Per Capita State and Local Expenditures for Education, 1960

State	Total	Higher Education	Local Schools	Other
NEBRASKA	\$102	\$ 20	\$ 80	\$ 2
Colorado	141	32	107	2
Iowa	109	21	86	2
Kansas	114	26	87	1
Missouri	82	11	70	1
South Dakota	106	27	77	2
Wyoming	172	35	134	3
U. S.	\$104	\$ 18	\$ 84	\$ 2

Source: *Governmental Finances in 1960*, U. S. Census Bureau.

Table 10—Aid to Dependent Children

State	Average Payment Per Family	Source of Funds:	
		% Federal	% State and Local
NEBRASKA	\$103	67.4	32.6
Colorado	124	59.8	40.2
Iowa	132	55.8	44.2
Kansas	133	57.3	42.7
Missouri	90	72.9	27.1
South Dakota	100	67.6	32.4
Wyoming	132	53.6	46.4
U. S.	\$107	58.6	41.4

Source: *Book of States, op. cit.*, pp. 368-9.

Welfare expenditures in Nebraska are somewhat lower than the national average and well below the regional average (Tables 10 and 11). Only two states in the region, Missouri and South Dakota, make lower "aid to dependent children" and "old age assistance" payments than Nebraska. These three states also depend more upon federal aid for welfare payments than do the other states in the region. The high total welfare costs for Missouri, which are shown in Table 6, are not because of high individual payments but because of a greater number of recipients per thousand persons over 65 years of age. Nebraska has the fewest recipients, proportionately, in the region.

All of the states in the region are well above the national average in highway expenditures per capita except Missouri and Colorado. This is the result of distances and sparse population, which makes road building expensive. Per capita costs in Wyoming are much higher than in other states even in this region, but the population is less than one-sixth that of Colorado, which has approximately the same area and terrain, and one-fourth that of Nebraska, which is smaller in area. In total amounts, Colorado spends over twice as much for roads as does Wyoming.

Table 11—Old-age Assistance, 1959

State	No. of recipients per 1,000 persons aged 65 and over	Av. Payment per recipient
NEBRASKA	100	\$68
Colorado	330 (60 and over)	98
Iowa	111	73
Kansas	129	77
Missouri	256	56
South Dakota	132	59
Wyoming	139	72
U. S.	156	\$65

Source: *Book of States, op. cit.*, p. 372.

Division of Nebraska highway, road, and street expenditures is generally 43% for county roads, 7% for city streets, 4% for administration and 46% for highways. State spending for highways, as for all other state functions, is on a "pay-as-we-go" basis, since the state constitution forbids state borrowing. Nebraska has lost no federal funds because of insufficient matching money, but in early 1962 Nebraska ranked 33rd in the nation in miles of Interstate Highway completed.

Highway safety and law enforcement by the state government is generally below the standards recommended by the National Safety Council and the International Association of Chiefs of Police. In January, 1962, the patrol force was 183 uniformed officers, while most standards recommend 290 for Nebraska's conditions. The patrol was established in 1937 and in the first year traffic deaths dropped from 322 to 225. The average death toll on the highways from 1952-1961 was 325, with a much heavier traffic burden than in 1937. Most of the officers in the patrol are assigned to traffic. Only four officers conduct criminal investigation. The addition of the Interstate Highway and the normal increase in traffic flow must be absorbed by the present force, since there is little room for expansion in the present biennium.

Recreation is another important area of government service, since 92 percent of the cost of all state park systems in the U. S. comes from tax-supported appropriations. Natural facilities in Nebraska are lacking, especially in the more heavily populated eastern section. Before 1959 expenditures for recreation facilities fluctuated with economic conditions. They were below all neighboring states in the past five years. A special levy was enacted by the 1959 State Legislature for recreation area development and for capital improvements.

The expenditure-income ratio shown on Table 12 is a rough indication of the public service effort of the 10 Great Plains States. To obtain

Table 12—Public Expenditures in Relation to Income, 10 Great Plains States, 1957-59

State	Per Capita Income as Percent of U. S. Average	Per Capita Exp. as Percent of U. S. Average	Expenditure- Income Ratio
North Dakota	75.2	116.0	154
Wyoming	103.5	151.2	146
New Mexico	85.6	113.1	132
South Dakota	76.6	97.6	127
Montana	93.0	113.3	122
Oklahoma	84.3	101.9	121
Colorado	102.4	120.6	118
Kansas	93.2	105.7	113
Texas	88.2	85.1	96
NEBRASKA	91.3	84.7	93
U. S.	100.0	100.0	100

this ratio the per capita income of the state as a percentage of the national average is divided into the same measure of per capita public expenditures. The resulting ratio indicates the general ability of the state to pay for public services as compared to other states.

Nebraska had the lowest ratio, or effort quotient, of the 10 Great Plains States for the 1957-1959 biennium. These figures indicate that more expenditures could be supported without getting out of line with other states having similar economic characteristics. It must be kept in mind, however, that the distribution of the tax burden, the requirements and desires of the community, and the political complexion of the community must be considered before making judgments on the ability of the state to add public services.

Sources of Public Funds

Although Nebraska's state government depends more upon the property tax for revenue than any other state government in the United States, the local governments in the state are still the primary users of this source of revenue. Local governments in Nebraska get about 60 percent of their *total* revenue and 92 percent of their *tax* revenue from the property tax, while the state receives about 18 percent and 30 percent respectively of total and tax revenue from that source.

Nationally, in 1961, the property tax provided only 2.2 percent of total state government revenues. Every other state in the nation has either a general sales tax or income tax or some combination of both. The importance of the property tax on the local level is generally quite consistent all over the nation. This source provided 87 percent of tax revenues for all local governments in the United States in 1956-57. This corresponds closely to the Nebraska local government situation.

Nebraska State Government Revenue

The Nebraska Constitution provides the basic authority and limitations for action by the State Legislature in raising revenue. Article VIII of the Constitution provides general authority for the Legislature to raise revenue for the state and its governmental subdivisions "in such manner as the Legislature may direct." The so-called "Duis Amendment," which was added in 1954, provides that: "When a general sales tax, or an income tax, or a combination of a general sales tax and income tax, is adopted by the legislature as a method of raising revenue, the state shall be prohibited from levying a property tax for state purposes." Other provisions of this article authorize special treatment

of motor vehicles and grain, and the exemption of certain types of properties from taxation.

All funds spent by state agencies, regardless of their source, must be appropriated by the State Legislature. There are five separate funds from which appropriations are made: the general fund, cash funds, federal aid, funds from special levies, and unexpended balances. Money for those funds comes from a variety of different sources including property taxes, motor fuel and other taxes, licenses and permits, fees or charges, interest earned on investment, rental income, proceeds from sale of property, gifts and federal grants-in-aid. The Legislature has the greatest control over the general fund, since most of the others are, actually or in effect, earmarked for specific purposes.

Unexpended balances are revenues which have not been spent by an agency during the previous biennium. Such balances are not usually the result of poor budget procedures but because the income from fluctuating sources such as some taxes (the gasoline tax), license fees, tuition and others must be estimated. Since appropriations are made for a two-year period, estimates cannot be completely accurate. An unexpended balance usually is reappropriated to the agency having the balance and subtracted from its new appropriation request.

Federal grants-in-aid are provided by the federal government for a variety of purposes. Thirteen state agencies receive federal funds during the current biennium with the largest amounts going for highways (66 percent) and welfare (21 percent). Other federal grants-in-aid go to aeronautics, education, game and parks, and labor. These grants amounted to 42.4 percent of total state revenues for the 1961 fiscal year and nearly equalled the combined total of all state tax revenues. Figure 1 shows the 1960-61 sources of revenue for Nebraska state government in amount and percent of total.

Federal grants normally require that the funds be matched by the state or local governments. Consequently, an increase in federal funds generally means an increase in state expenditures from its own sources. This must be considered carefully before participating in a federal program. At the same time, it must be remembered that federal funds are partially paid for by Nebraskans through federal taxes. Federal grants have provided incentive and assistance for many public services on both the state and local level and have been steadily increasing in importance in the past 20 years.

Cash funds include all receipts except those deposited in the general fund, revenues from special property tax levies, and federal funds. These are derived from many different sources, of which the most important is the gasoline tax. Most of the motor fuels taxes, which

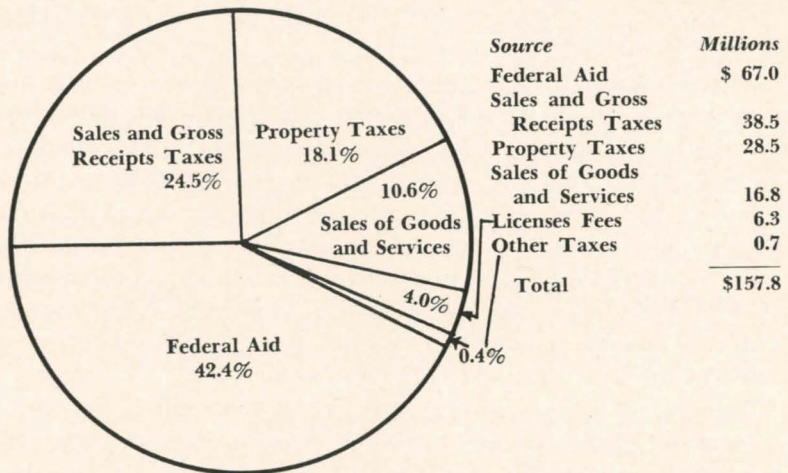


Figure 1—Sources of State Government Revenue Nebraska, 1960-61

comprise 71 percent of the total cash funds, are used by the State Department of Roads and Irrigation. Tuition fees, agricultural income and gifts are important sources of revenue for the University of Nebraska and the State Teachers Colleges. The Department of Aeronautics obtains most of its non-federal revenue from the aviation fuel tax, which is earmarked for aviation. The Departments of Agriculture and Public Institutions and the Game, Forestation and Parks Commission also obtain significant revenues in cash funds through the sale of licenses and permits, earnings of charitable and penal institutions, and other miscellaneous fees.

Special levy funds come from property tax levies earmarked by the Legislature for specific purposes. The institutional building fund (1.10 mills) is an example. It provides money mainly for building purposes for the University of Nebraska, the Department of Institutions, and the State Teachers Colleges. Other special levies are made for the College of Medicine (.25 mills), agricultural product utilization research (.10 mills), teachers' retirement (.50 mills), and state parks (.30 mills). The institutional building fund will amount to about \$5,250,000 in 1961-63 and the other special levies will raise about \$6,250,000. Of the latter sum, about half is for teachers' retirement.

The general fund is the "operating fund" out of which most state agencies receive part or all of their appropriations. All but 8 of the 53 state agencies receive money from the general fund. During the current biennium, \$77 million was appropriated from this fund, with nearly

half going to institutions of higher education. The Department of Institutions and the Department of Welfare received about \$12 million each and the Departments of Roads and Education received about \$4 million each from the general fund.

Revenue for the general fund comes from 30 different sources, of which the property tax is the most important. Cigarette and liquor taxes, insurance and intangible taxes, pari-mutuel taxes and drivers' license fees also are important general fund sources. The property tax provides money for that part of the total appropriation not covered by other sources. In computing the property tax, estimated receipts from other sources are subtracted from the total appropriation and the remainder is divided by the total assessed valuation of real and tangible personal property in the state. This provides the mill levy which is necessary to meet the appropriation. Special levies are then added on to make up the total state property tax levy.

For 1961-62 the state mill levy for meeting appropriations was 6.33 mills as compared with 6.35 mills for 1960-61. This levy provided \$20,750,000 in 1961, or 53 percent of the total general fund revenue. There was an increase in the general fund appropriation for 1961, but the increase in assessed valuation of the state was enough to lower the property tax levy by .02 mills.

Comparisons of Revenue Sources: Nebraska and Bordering States

Nebraska contrasts markedly with neighboring states in emphasis on particular sources of revenue. Nebraska is the only state in the region or the nation without a general sales and/or income tax. As a result, a much larger percentage of state revenue is derived from selective sales and property taxes. Nearly 75 percent of the "sales and gross receipts" taxes in Nebraska come from the motor fuels tax.

All of Nebraska's bordering states have general sales taxes and all except South Dakota and Wyoming have income taxes. The sales tax in each of those states is 2 percent except Kansas, which has a 2.5 percent rate. Income taxes in the 4 states which levy them use several different exemption systems and percentages which make comparisons difficult except as percent of total tax revenue. Table 13 shows the percentage of state taxes by source for Nebraska and her bordering states. Note that most of the bordering states distribute their revenue between sales taxes and income tax or property tax, but South Dakota

Table 13—Percentage of State Taxes by Source, Nebraska and Bordering States, 1960

State	All Taxes	Sales and Gross Receipts Taxes				Income Tax		Property Tax	Licenses	Other Taxes ^a
		Total	Gen. Sales	Motor Fuels Sales	Other Sel. Sales					
						Ind'l.	Corp.			
NEBRASKA	100.0	55.6	...	41.5	14.1	29.9	12.4	2.1
Colorado	100.0	52.3	26.1	19.4	6.8	18.0	5.6	5.5	13.7	4.9
Iowa	100.0	61.6	30.4	22.7	8.5	13.8	1.4	1.4	19.1	2.7
Kansas	100.0	64.6	35.5	19.1	10.0	11.6	4.1	3.8	13.9	2.0
Missouri	100.0	62.3	38.0	14.7	9.6	12.0	3.2	3.6	17.2	1.7
South Dakota	100.0	77.6	29.7	27.4	20.5	...	0.8	...	19.0	2.6
Wyoming	100.0	57.9	29.6	20.2	8.1	16.3	24.8	1.0

^a Severance, death, gift and other taxes.

Source: *Detail of State Tax Collections in 1961*, U. S. Bureau of Census, G-SF 61- No. 4.

Table 14—Population, Personal Income and State Taxes, Selected States, 1960

State	(1) Population	(2) Personal Income Per Capita	(3) State Taxes Per Capita	(4) State Taxes as Percent of Personal Income
	(000)			
NEBRASKA	1,414	\$2,113	\$ 64	3.0
Colorado	1,758	2,320	110	4.7
Iowa	2,761	2,003	96	4.8
Kansas	2,178	2,068	95	4.6
Missouri	4,331	2,199	72	3.3
South Dakota	682	1,842	78	4.2
Wyoming	332	2,334	125	5.4
United States	179,977	2,223	100	4.5

Sources: *Governmental Finances in 1960*, U. S. Census Bureau, G-Gf 60-No. 2 and G-Sf 60-No. 2.

depends almost entirely upon sales and gross receipts taxes and license fees.

A comparison of personal income and state taxes among the states in the Nebraska region is given in Table 14. Nebraska was 4th in the region in average per capita income and slightly below the United States average. However, her taxes per capita were the lowest among the seven states. Nebraska state taxes as a percent of personal income also were below the other states in the region. Only Missouri and South Dakota, besides Nebraska, had per capita tax percentages below the United States average. Wyoming again has the highest per capita tax percentage of income because of her small population and large area. Only Wyoming and Colorado (the two largest states in the region) have personal incomes above the national average.

Financing Local Government Services

Local governments are essentially "creatures of the State" and, as such, derive their power to raise revenue from the Legislature. The general authority to raise revenue by taxation is provided in Article VIII of the State Constitution. The Legislature, within the limits of that authority, grants specific methods of taxation to the various local governments. Data are not as complete or as available for describing the sources of revenue of local governments as for state government because of the number and variety of units and functions.

The property tax is the most important source of revenue for local governments, amounting to 92 percent of all local government *tax* revenues and 60 percent of *all* revenues. Sources of revenue other than tangible property taxes are: shares of the state gasoline, head, grain and intangible taxes; motor vehicle license fees; operator's permits; federal aid to municipalities; state aid; and numerous charges and fees.

Table 15—Total Property Taxes Collected for Nebraska Governments, 1959-60

Government	Total	Percent
	(Millions)	
State	\$ 28.4	15.1
Counties	29.2	15.4
Cities and Towns	29.1	15.4
School Districts	97.4	51.5
Twp. and Spec. Dist.	4.9	2.6
Total	\$189.0	100.0

The division of total property taxes among the various units of government are shown in Table 15. Note that over half of all property taxes collected in the state went to local school districts. The state government used only 15¢ out of the average property tax dollar. The distribution of property taxes among governmental units will vary from community to community in Nebraska, but the proportion going to state government is generally one-fourth or less.

Interstate Comparisons of Local Government Revenue: 1956-57 ⁴

Comparisons of Nebraska local government revenues with those of her neighboring states indicate that the property tax is fairly consistent among the local governments of all the states on a per capita basis. The range of per capita revenue from the property tax (Table 16) is from \$56 to \$97, but if Missouri is excluded, the range is less than \$20. General revenue from all sources for local governments varies considerably among the seven states, with Nebraska in about the middle of the range. Colorado and Wyoming local governments depend more upon

Table 16—Amount of Revenue Per Capita for Local Government, 1956-57

State	Total, All Sources	Taxes		Intergov't. Revenue ^a		Charges and Misc.
		Total	Property	Total	State	
NEBRASKA	\$140	\$ 92	\$ 84	\$ 28	\$ 27	\$ 20
Colorado	193	99	91	70	66	24
Iowa	148	89	87	39	38	20
Kansas	164	100	97	44	42	20
Missouri	108	68	56	23	21	17
South Dakota	135	104	96	16	14	15
Wyoming	180	86	79	63	61	31

^a Transfers from state to local governments, counties to cities, etc.

⁴ See the appendix to this circular for Nebraska county comparisons of local debt, local government employees, property tax assessments, and income per family and per capita.

Table 17—Percentage of Local Government Revenue by Source, 1956-57

State	Total	Taxes		Intergov't. Revenue		Charges and Misc.
		Total	Property	Total	State	
NEBRASKA	100	66	60	20	19	14
Colorado	100	52	47	36	34	12
Iowa	100	60	59	26	26	14
Kansas	100	61	58	27	26	12
Missouri	100	63	52	21	19	16
South Dakota	100	77	71	12	10	11
Wyoming	100	48	44	35	34	17

revenues from the state government than do others in the region. South Dakota ranges well below the other states in state intergovernmental revenue, but its state government does not levy a property tax, leaving that source primarily to the local governments. On a percentage basis (Table 17), Nebraska, Iowa, Kansas, and Missouri local government units closely resemble one another in taxing methods and in the amounts derived from various sources.

Nebraska local debt per capita is the highest in this region and second highest per \$1,000 assessed property valuation (Table 18). Local property tax per \$100 assessed value is fourth highest in the region and quite a little lower than that of Colorado, Iowa, and Kansas. Nebraska ranks second, behind sparsely populated Wyoming, in the number of local government employees per 10,000 population, at least partially because of the large number of school districts and the extensive use of special districts for performing special functions.

State and Local Government Revenue Comparisons Among Great Plains States: 1958-59

In the 10 Great Plains States, Nebraska ranked ninth in general revenue per capita, with Texas a very close tenth, and below the national average (Table 19). The state also ranked ninth in per capita revenue from its own sources (exclusive of federal aid). Nebraska de-

Table 18—Financial Situation of Local Governments, 1956-57

State	Local Prop. Tax Per \$100 Assessed Value	Local Gov't. Debt Per Capita	Local Debt Per \$1,000 Assessed Valuation	Local Gov't. Employees Per 10,000 Population
NEBRASKA	\$3.95	\$261	\$122	248
Colorado	4.80	259	137	236
Iowa	5.10	107	63	216
Kansas	4.86	226	114	247
Missouri	3.44	158	98	192
South Dakota	3.35	67	23	229
Wyoming	3.20	196	79	261

Table 19—State and Local Government Revenue, Per Capita, 10 Great Plains States, 1958-59

State	(1) (2) (3) General Revenue Per Capita			(4) (5) Taxes Per Capita		(6) Charges and Misc. Taxes Per Capita	(7) (8) Prop. Tax as Pct. of:		(9) Federal Aid as Pct. of Gen. Revenue
	Total	Federal Gov't.	Own Sources	Total	Property		All Revenue Own Sources	All Tax Revenue	
Colorado	\$334	\$ 57	\$277	\$222	\$112	\$55	40	50	17
Kansas	298	47	251	211	119	40	47	56	16
Montana	328	72	256	209	123	47	48	59	22
NEBRASKA	230	34	196	158	108	38	55	69	15
New Mexico	347	95	252	174	41	78	16	24	27
North Dakota	316	65	251	182	92	69	37	51	21
Oklahoma	283	71	212	169	53	43	25	31	25
South Dakota	281	55	226	182	101	44	45	56	19
Texas	227	38	189	147	71	42	38	48	17
Wyoming	438	142	296	223	123	73	41	55	32
U. S. Average	\$257	\$ 36	\$221	\$184	\$ 85	\$ 37	38	46	14

Source: *Government Finances in 1959*, U. S. Bureau of Census.

pended less upon federal aid than any other state in the Plains area, but only slightly below the United States average. The states in this area, including Nebraska, receive larger highway grants per capita than do the more densely populated states. This indicates that Nebraska depends much less upon federal aid for purposes other than highways than do the other states of this area and of the nation.

Nebraska was fifth among the Plains States in property tax revenues with \$108 per capita. The state is ninth in the nation in property tax revenue per capita and was 27 percent higher than the national average. Nebraska was first among all 48 states in property taxes as a percent of all revenue from its own sources, and as a percent of all tax revenue. Since Nebraska does not have a sales or income tax, which all of the other states do have, this greater dependence upon the property tax is to be expected. This does not necessarily mean that Nebraska property taxes are higher than other states, as is clear by looking at Column 5 of Table 19; but the Nebraska property tax per \$1,000 of personal income is one of the highest in the nation, ranking sixth among the 50 states.

Appendix

Comparative Statistics for Nebraska Counties¹

List of Figures

Figure

- 1 Population Per Square Mile—Counties, 1960.
- 2 Assessed Evaluation of Tangible Property Per Capita, 1960.
- 3 Mean Income Per Capita, 1960.
- 4 Median Income Per Family, 1960.
- 5 Local Property Tax Revenue Per \$100 of Assessed Evaluation, 1957.
- 6 Total Per Capita Expenditures of Local Government, 1957.
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- 8 Highway Expenditures of Local Government Per Capita, 1957.
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- 10 Full Time Teachers Per 1,000 Population, 1957.
- 11 Local Government Employees Per 1,000 Population—Except Teachers, 1957.
- 12 Local Government Debt Per Capita—Total, 1957.
- 13 Local Government Debt Per \$1,000 of Assessed Evaluation—Total, 1957.

¹ Data obtained from Bureau of the Census, "Local Government Finances and Employment in Relation to Population—1957," and "General Social and Economic Characteristics—1960." Income data was derived from samples taken during the 1960 census and is subject to sampling variations. The 1957 data on government finances and employment were developed from surveys which sought relative information from all governmental units and is not subject to sampling variations.

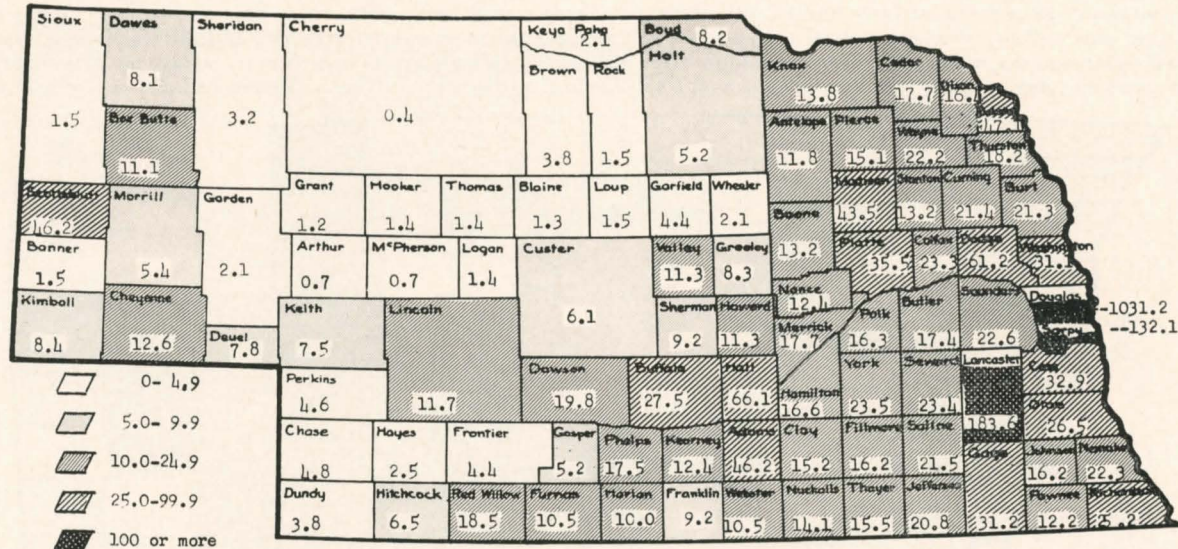


Figure 1. Population is densest in eastern Nebraska. Density (1960) varied from less than one person per square mile in some western counties to more than 20 in most eastern counties. Counties with more than 25 persons per square mile can be identified with a comparatively large city located within the county.

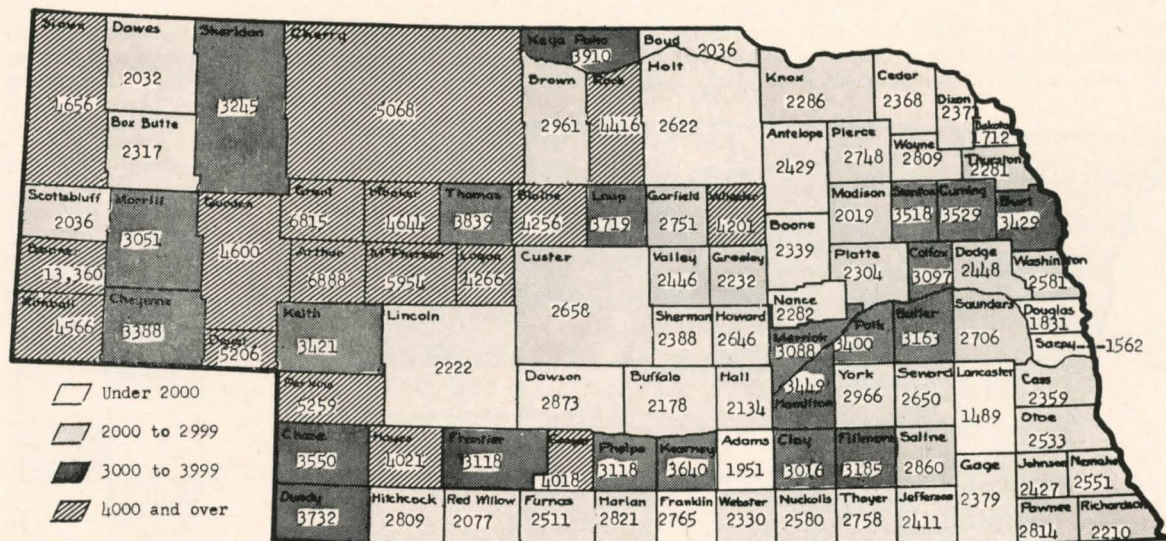


Figure 2. The average assessed evaluation of tangible property per capita in Nebraska was \$2,323 in 1960. This varied from a high of \$13,360 (Banner County) to a low of \$1,498 (Lancaster County). Sarpy and Douglas Counties were also low. Banner County was high mainly because of the assessed evaluation of oil wells. Lancaster, Douglas and Sarpy Counties were low because of the large cities with a lower evaluation per person, and the number of government employees. The sandhills area was above average because of the high proportion of cattle and land in the area to the population.

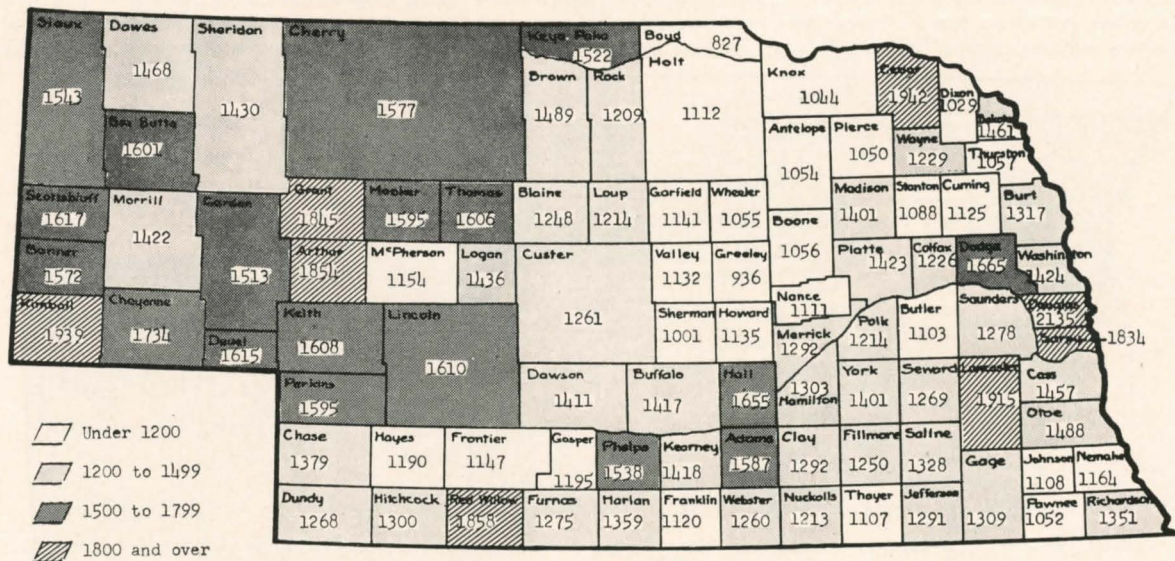


Figure 3. The average income per person in Nebraska was \$1,628 in 1960. Douglas County (\$2,135) was highest; Boyd County (\$827) was lowest. Mean income was arrived at by dividing total income (for all persons 14 years and older) by the total state population. For family income see Figure 4.

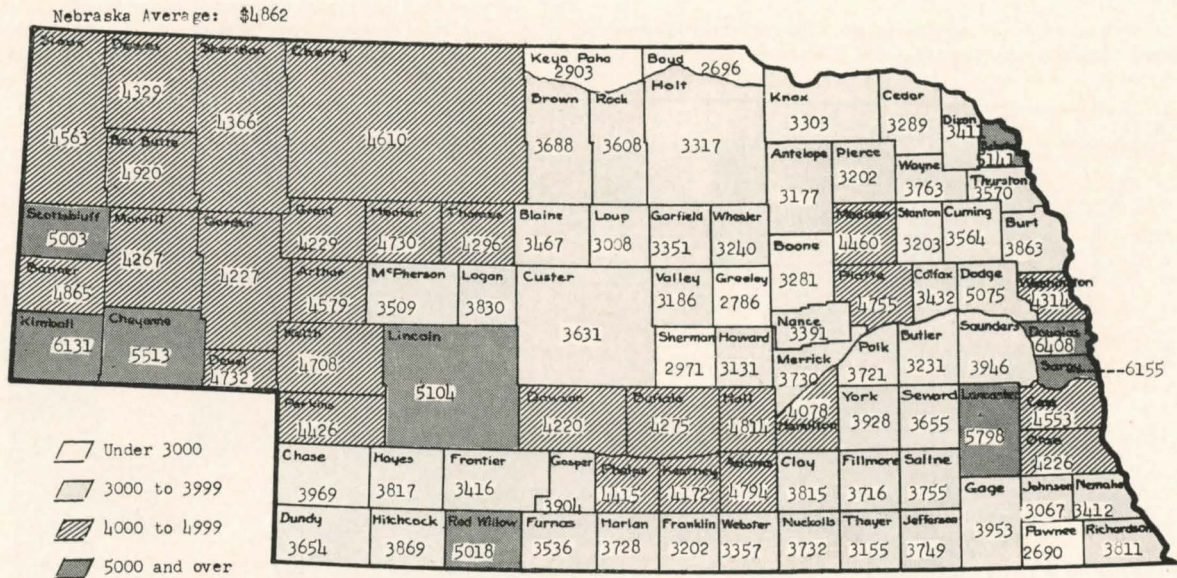
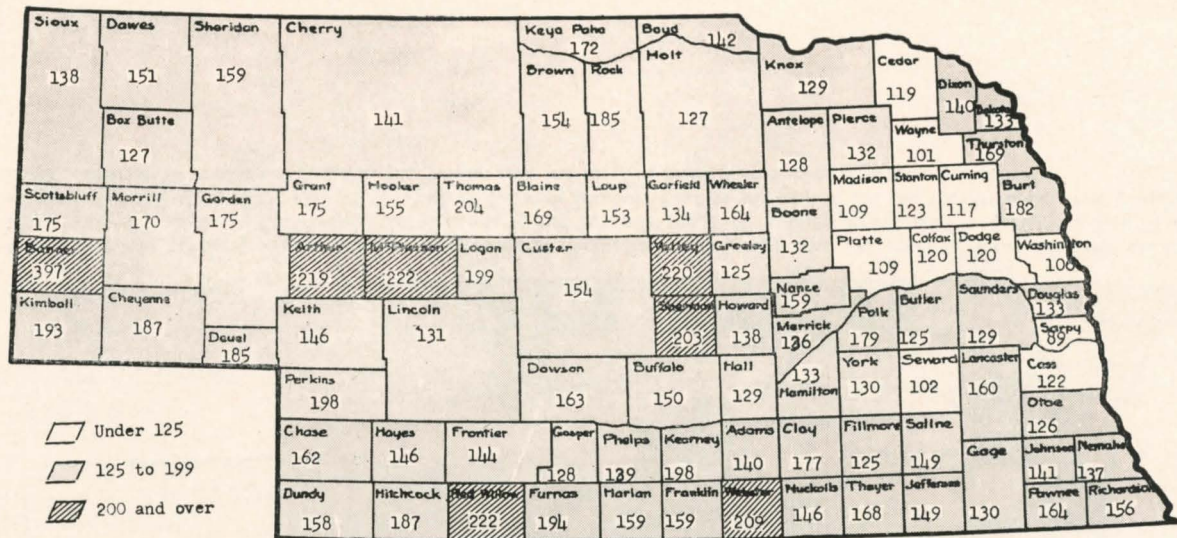


Figure 4. The median income per family in Nebraska was \$4,862 in 1960. This varied from \$6,408 (Douglas County) to \$2,690 (Pawnee County). Median income means half of the families in the county or state had an income above and half had an income below, the median figure. Contrast this map with Figure 11 which shows the property per capita in 1957. In most cases counties that had a high income per family had a low assessed evaluation per capita.

Nebraska Average: \$112



Nebraska Average \$63.31

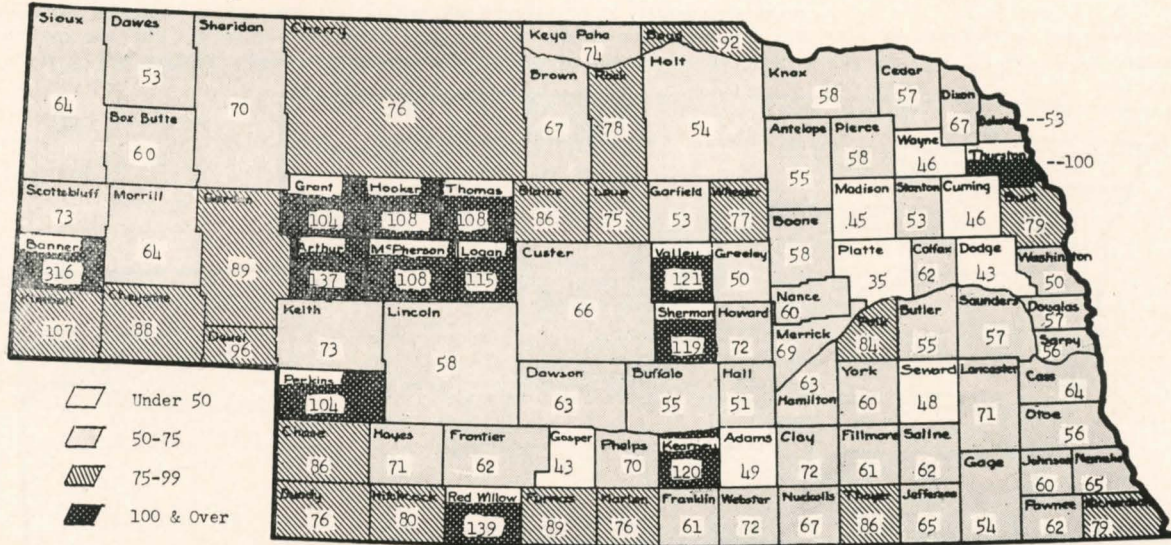


Figure 7. Educational expenditures of local governments per capita in Nebraska averaged \$63.31 in 1957. By county this varied from \$35.00 (Platte County) to \$316 (Banner County). These funds do not include expenditures for parochial schools but do include amounts for county supervision of schools and for locally administered institutions of higher learning such as the junior colleges in Norfolk, Fairbury, McCook and the University of Omaha in Douglas County. The per capita expenditures were high in the sandhills where there were few students per teacher and above average number of teachers per 1,000 population.

Nebraska Average: \$24

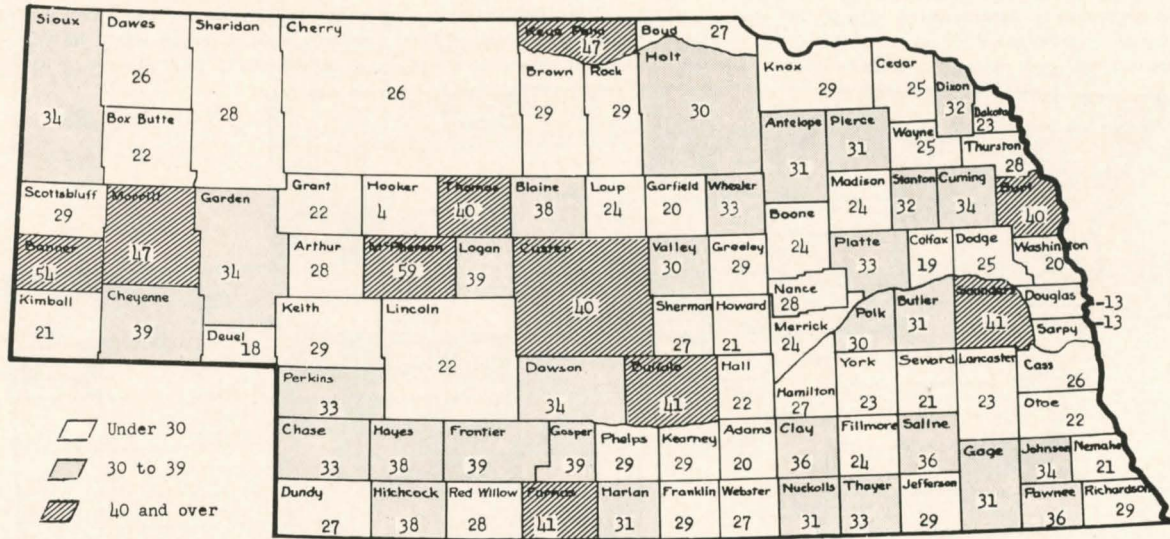


Figure 8. The average highway expenditures per capita in Nebraska (1957) was \$24.15. Of this, \$14.81 was for current maintenance and repairs and the other \$9.28 was for capital outlay for new highways. By counties the total expenditures for highways varied from \$59 (McPherson County) to \$4 (Hooker County).

Nebraska Average \$13.36

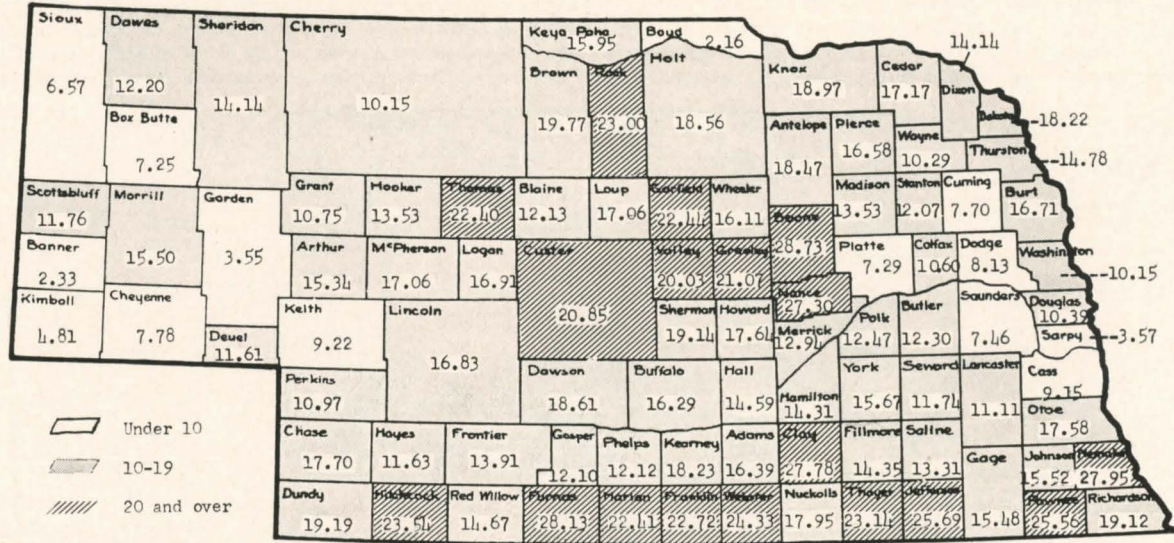


Figure 9. Public welfare expenditures of local governments in Nebraska averaged \$13.36 per capita in 1957, varying from \$2.16 (Boyd County) to \$28.73 (Boone County). This includes state and Federal funds distributed at the local level. Counties with the higher expenditures were in the transition counties of central Nebraska and in some Republican Valley counties.

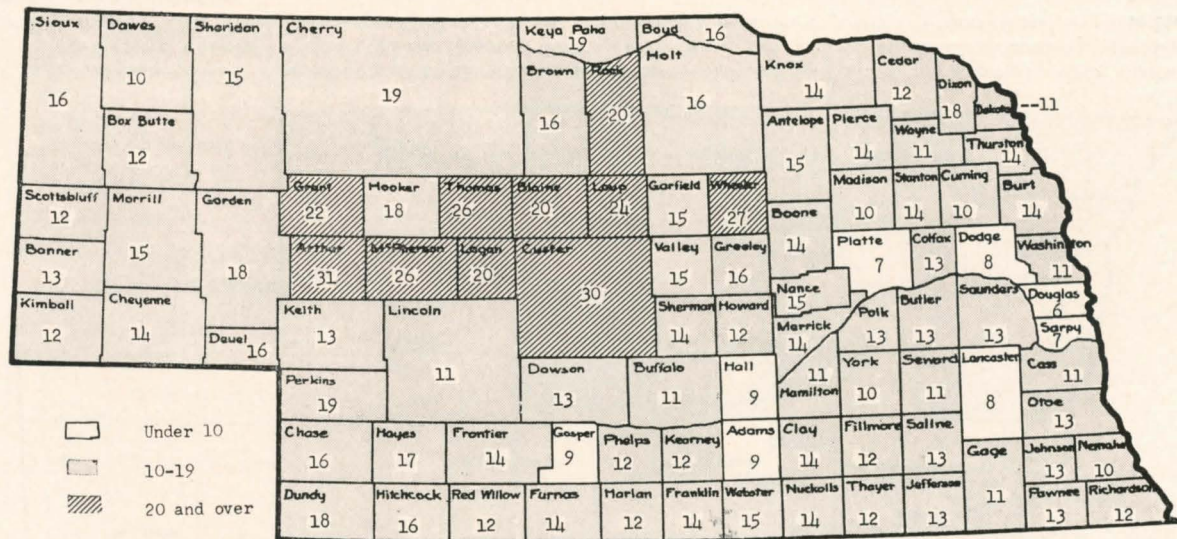


Figure 10. The average number of full time teachers per 1,000 population in Nebraska was 10.2 in 1957. This includes teachers in the primary and secondary schools, and junior colleges and municipal Universities. It excludes those teachers in private or parochial schools. The number of teachers per 1,000 population was highest in the sandhills. The number of school-age children per 1,000 population varies for different parts of the state depending upon whether the population is growing or declining. In areas where the population is growing the number of children of school age per 1,000 population normally is above average.

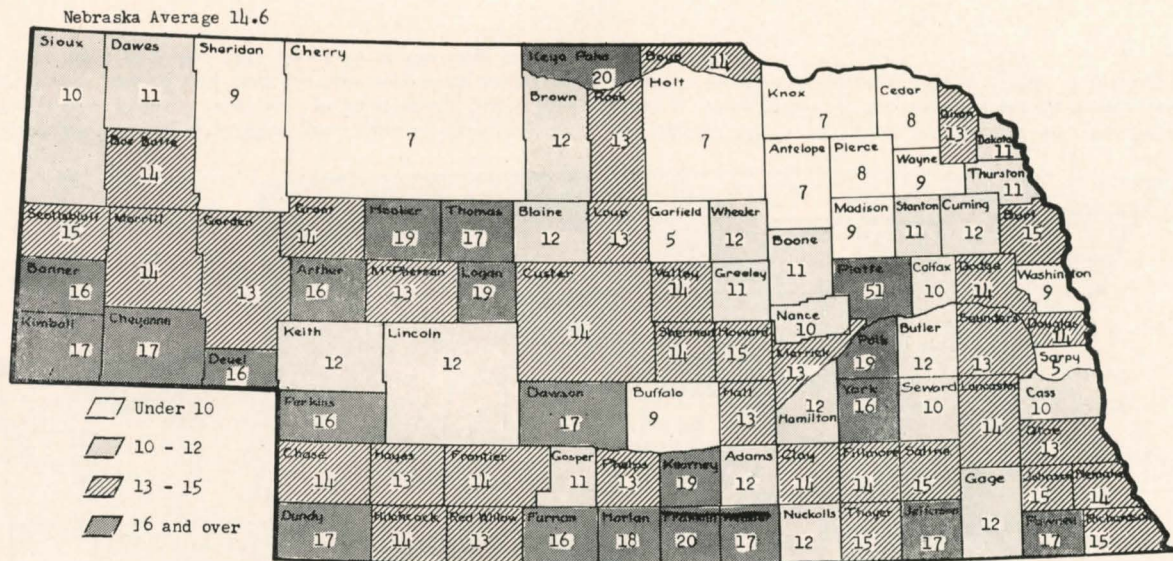


Figure 11. The number of local government employees per 1,000 population (1957), excluding teachers, includes full-time employees plus the number of employees who would have been paid at full-time rates from the amount expended for part-time payrolls. The figures include employees of special districts including: Central Nebraska Public Power and Irrigation District (Adams County), Custer Public Power District (Custer County), Omaha Public Power District (Douglas County), Norris Rural Public Power District (Gage County), Southern Nebraska Rural Public Power District (Hall County), Platte Valley Public Power and Irrigation District (Lincoln County), Eastern Nebraska Public Power District (Otoe County), Loup River Public Power District (Platte County), Consumers Public Power District (Platte County). The number of local government employees, except teachers, per 1,000 population in Nebraska averaged 14.6, varying from 5 (Sarpy County) to 51 (Platte County).

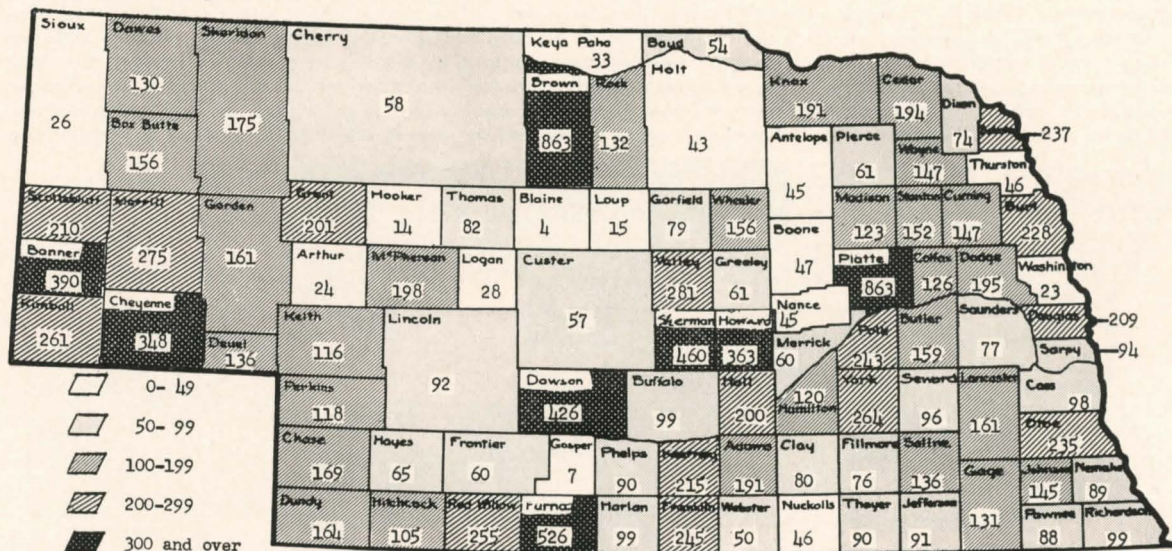


Figure 12. Average local debt per capita in Nebraska, 1957, was \$261.04. This varied from \$4 (Blaine County) to \$863 (Platte and Brown Counties). The debt of the public power districts are included for the county in which their headquarters is located and their services may cover larger areas than the headquarter county. Practically all of this debt is long term debt but only about $\frac{1}{3}$ of the long term debt is guaranteed.

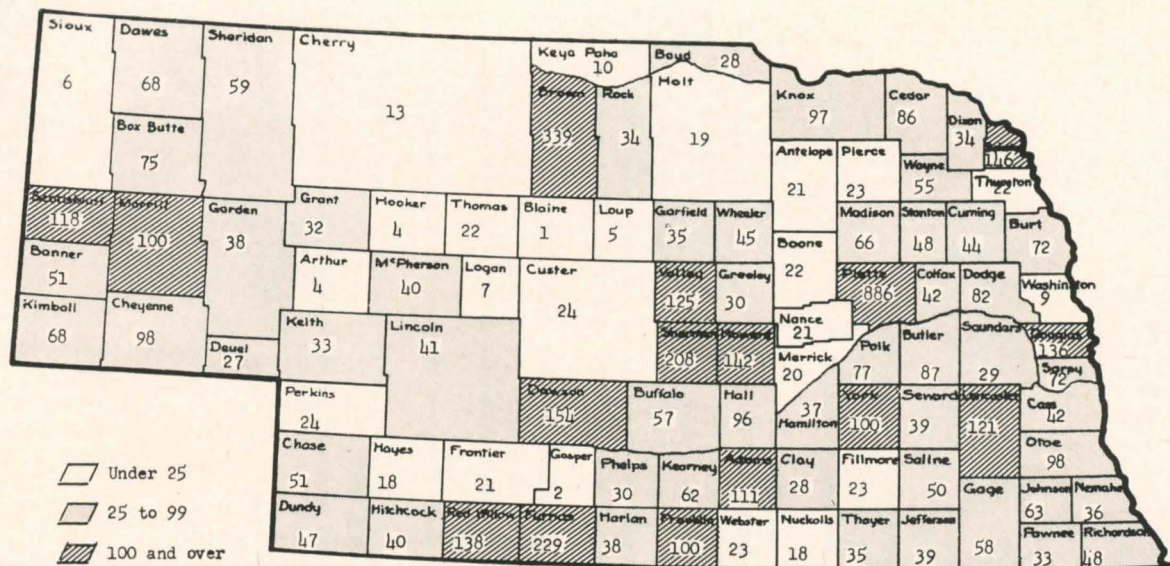


Figure 13. The local government debt per 1,000 of assessed evaluation was \$122.38 in 1957. This debt is a total debt without a deduction of sinking funds or other debt offsets. By counties it ranged from \$886 (Platte County) to \$1 (Blaine County). This includes the debt of public power districts which are paid for through costs of services rather than taxes.

Local Government Debt of Nebraska—1957

	State Average			
	Per Capita		Per \$1,000 of Assessed Evaluation	
Short Term	...	\$ 3.71	...	\$ 1.74
Long Term—Full Faith and Credit	\$ 90.10	...	\$ 42.24	...
Not Guaranteed	167.23	...	78.40	...
Total	...	257.33	...	120.64
TOTAL	...	\$261.04	...	\$122.38

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