

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Historical Materials from University of
Nebraska-Lincoln Extension

Extension

1984

G84-727 Financing State and Local Government in Nebraska -- An Overview (Revised March 1992)

A.L. (Roy) Frederick

University of Nebraska - Lincoln

Follow this and additional works at: <https://digitalcommons.unl.edu/extensionhist>



Part of the [Agriculture Commons](#), and the [Curriculum and Instruction Commons](#)

Frederick, A.L. (Roy), "G84-727 Financing State and Local Government in Nebraska -- An Overview (Revised March 1992)" (1984). *Historical Materials from University of Nebraska-Lincoln Extension*. 924. <https://digitalcommons.unl.edu/extensionhist/924>

This Article is brought to you for free and open access by the Extension at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Historical Materials from University of Nebraska-Lincoln Extension by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.



Financing State and Local Government in Nebraska -- An Overview

This is one of a series of NebGuides on financing state and local government. This publication provides an overview of key trends and issues.

A.L. (Roy) Frederick, Extension Economist -- Public Policy

Government's primary purpose is to provide public services. In the United States these services are provided by federal, state and local units of government. Sometimes one entity has full responsibility for providing for a common need, as the federal government does for national defense. Often, however, responsibilities are shared, as in public education.

A wide array of public services are provided because citizens have asked for them. Sometimes it is a minority of citizens who have made the request. In Nebraska, about 3,000 units of government provide public services and levy taxes. These include federal and state government, 93 counties, over 500 municipalities, and nearly 800 school districts. Other "taxing districts" include educational service units, community college districts, natural resource districts, rural fire districts and sanitary improvement districts.

Few citizens are far away from the services provided by government at any time in their lives. Think about it: roads and highways, public education, police and fire protection are but a few examples of the widespread services of the public sector. Some citizens argue that public services ought to be expanded beyond current levels to meet a specific need, while others want the level of services to be stabilized or even reduced.

Those who argue against public-sector growth generally do so for one of two reasons.

First, when tax revenues are committed to the public sector, individuals are left with less money for personal expenditures, other things being equal. Second, with many public services and many units of government, accountability is a challenge; citizens question whether their tax dollars are being spent wisely. Public debate ultimately focuses on four key questions:

- What should government provide?
- How much should it cost?

- What unit of government should provide it?
- Who should pay for it?

In a representative democracy, citizens ultimately answer these questions through the political process. This and other NebGuides in this series seek to provide a base for understanding so citizens can collectively reach the most informed decision(s) possible on future public finance questions.

This NebGuide provides an overview of state and local government finances in Nebraska. Others in this series focus more specifically on funding sources and major expenditure areas.

Sources of Data

Statistical data on state/local finances are available from two principal sources: the (U.S.) Bureau of the Census and Nebraska state agencies.¹ The primary advantage of census data is the comprehensive treatment it gives to local units of government. Census data also facilitate comparisons between states and, in some cases, may provide more consistent comparisons over longer periods of time within a state.

The primary disadvantage of census data is that it often does not provide a precise match between federal and state designations of program areas. State government in Nebraska, for example, has no general program area with the title, "hospitals." Yet, the latter is one of the major functional areas of state/local expenditures as identified by the Bureau of the Census.

In addition, census data often are not as current as data generated by state agencies because it takes longer to collect and analyze data on a national basis.

Despite these limitations, census data are used extensively in this NebGuide, primarily because the objective here is to provide a broad perspective on state and local finances. Subsequent NebGuides in this series depend more heavily on data supplied by individual agencies of state government.

Why Focus on State/Local Finances?

This and other NebGuides examine trends in state/local finances for several reasons:

- Nebraska has been confronted with a series of state/local finance problems in recent years, many of which focus on property taxes and/or spending in specific areas such as education and social services.
- Taxes levied by state and local governments in Nebraska have been increasing faster than inflation. From fiscal year 1980-81 (hereafter referred to as FY 1981) to FY 1991, total tax collections rose by an annual average of 7.06 percent. Over the same period, inflation increased by 4.53 percent annually.
- On a relative basis, federal aid to state and local governments, including those in Nebraska, has declined. In FY 1978, federal aid accounted for 26 percent of all state/local general revenue; by FY 1989 the federal share had declined to 16 percent. As a result, states and local units of government have had to rely more heavily on their own revenue sources.
- Public awareness of tax and spending issues has intensified in Nebraska. Commissions and other groups have been formed and initiatives taken to alter taxes and/or spending, both within and outside government.
- Citizens generally feel a closer kinship to programs and policies at the state and local level. From a practical standpoint a consensus for change does not have to be as far-reaching as at the federal level.

- Increased numbers of Nebraskans are interested in how the state's state/local finance system compares to other states in the region and to the country as a whole.

State and Local Government Expenditures in Nebraska

State and local governments account for a significant portion of overall economic activity. In FY 1989, state and local direct general expenditures² in Nebraska amounted to 19.0 percent of personal income (*Table I*). Nationally the percentage was slightly lower at 18.7 percent.

Table I. Combined state and local direct general expenditures as a percentage of personal income, Nebraska and U.S., selected fiscal years, 1942-1989.

Direct General Expenditure Category	1989 Amount (millions)	As a Percentage of Personal Income				
		1989	1982	1977	1957	1942
Education	1,803.0	7.6	7.0	8.3	4.3	2.4
Highways	487.7	2.1	2.3	2.7	2.8	1.8
Public Welfare	479.1	2.0	1.5	1.5	0.8	1.1
Hospitals	440.0	1.9	1.7	1.7	0.8	0.3
All Other	1283.6	5.4	4.8	5.5	1.4	2.1
NEBRASKA TOTAL	\$4,493.4	19.0	17.3	19.7	10.1	7.7
U.S. TOTAL	\$759,380.2	18.7	17.9	20.0	11.6	7.5
Source: Advisory Commission on Inter-Governmental Relations, <i>Significant Features of Fiscal Federalism 1982-83 Edition</i> , January, 1984; U.S. Department of Commerce, Bureau of the Census, <i>Government Finances: 1988-89</i> , GF-89-5, February, 1991.						

The period beginning after the Korean War and continuing through the late 1970s was one of rapid expansion of state and local government expenditures. In large part, this was a response to demands for more public services.

Growth of state and local expenditures was particularly robust between 1957 and 1977. During this period state/local expenditures in Nebraska grew at an annual inflation-adjusted rate of just under five percent, a growth rate considerably above that of the general economy.

However, subsequent recessions, reductions in federal aid (especially the loss of general revenue-sharing), modest population growth and growing opposition to ever-larger state and local tax demands helped dampen relative spending growth in the 1977-89 period. Direct general expenditures as a percentage of personal income did not exceed the FY 1977 level during the 1980s.

The largest expenditure category for state and local government is for public education. Of the \$1.803 billion spent for this purpose in FY 1989, local elementary and secondary school expenditures accounted for 65 percent of the total (*Table II*). The remaining 35 percent went for higher education, most of which was spent at the state level. (Community colleges receive some of their funding from local property taxes.)

Table II. State and local direct general expenditures, Nebraska, by category, FY 1989.

Direct General Expenditure Category	State Government	All Local Government	Total
	------(millions)-----		
Education	\$512.8	\$1,290.1	\$1,803.0
Highways	281.8	205.9	487.7
Public Welfare	451.9	27.2	479.1
Hospitals	157.8	282.2	440.0
Environment and Housing	102.2	279.2	381.4
Public Safety	97.6	167.4	265.0
Government Administration	66.9	123.2	190.1
All Other	204.1	243.1	447.2
TOTAL	\$1,875.1	\$2,618.3	\$4,493.4
Source: U.S. Department of Commerce, Bureau of the Census, <i>Government Finances: 1988-89</i> , GF-89-5, February, 1991, p. 73.			

Highways (including roads and streets) are the second largest area of expenditures for state and local governments. However, for two important subdivisions of local government, counties and municipalities, highways lead all expenditure categories.

Public welfare (referred to in Nebraska as "social services") ranked third in overall expenditures in 1989, followed by hospitals (which includes elements of the Nebraska Department of Public Institutions and the University of Nebraska Medical Center, plus locally supported hospitals). Together, social services and hospital expenditures represent a public response to individual citizens with special needs.

Social services spending is the fastest growing area of state and local expenditures, up 92 percent between FY 1982 and FY 1989. Hospital spending, which in contrast to social services is mostly a local responsibility, also increased rapidly, up 76 percent during the same period. (Over this period, inflation, as measured by the Consumer Price Index, increased the general price level by 28 percent.)

Environment and housing expenditures include those made for preservation and maintenance of the water, land, energy and wildlife resources of the state; state parks; local parks; agricultural development and regulation; community development and solid waste management. Local spending accounts for a majority of the total.

Public safety includes police and fire protection, plus corrections expenditures. Local governments have primary responsibility, although state expenditures are made for the Nebraska State Patrol and the state penal complex.

Governmental administration expenses include most service and regulatory activities carried out in the county courthouses and by state government. All three branches of government -- legislative, executive and judicial -- are included in this expenditure category.

Dozens of other public services, ranging from airports to veterans' services, are included in the "all other" category.

In FY 1989 all direct general expenditures by state and local governments in Nebraska amounted to \$2,791 per capita. Of this, \$1,626 was spent by local units, and the remaining \$1,165 by state government.

By comparison the average per capita expenditure for all state and local governments in the United States was \$3,071.

Of the total \$4.493 billion spent by state and local governments in Nebraska in FY 1989, about 16 percent came from the federal government (*Table III*). An additional 39 percent came from state government, leaving the remaining 45 percent to be generated at the local level. In the United States as a whole, state and federal sources accounted for relatively larger percentages of state/local expenditures than they did in Nebraska.

(Beginning with 1990 data series and beyond, the state share in Nebraska will be larger, the result of a new school finance law, which shifts more funding responsibilities to the state.)

Table III. State-local direct general expenditure: Federal, state and local share of finances, FY 1989.

		Percentage Financed by:		
	Total (millions)	Federal	State	Local
Nebraska	\$ 4,493	16	39	45
United States	759,380	17	45	38
Source: U.S. Department of Commerce, Bureau of the Census, <i>Government Finances: 1988-89</i> , GF-89-5, February, 1991, p. 32.				

Funding Sources for State and Local Governments in Nebraska

In FY 1989, general revenue³ available to state and local government amounted to \$4.824 billion (*Table IV*). Not surprisingly, revenues tend to parallel expenditures, both on an absolute basis and as a percentage of personal income.

State and local taxes accounted for 56 percent of all general revenue in FY 1989, followed by charges and fees, particularly for education and hospital care, at 19 percent; and federal aid, 15 percent. The remainder came from miscellaneous sources.

Table IV. General revenue funding for state and local governments as a percentage of personal income, Nebraska and U.S., selected years, 1942-1989.

		As a Percentage of Personal Income				
Funding Category	1989 Amount (millions)	1989	1982	1977	1957	1942
Property Tax	\$1,124.1	4.7	4.3	6.0	5.3	4.4

All Income Taxes	554.7	2.3	1.7	2.2		
Sales & Gross Receipts Taxes	809.6	3.7	2.1	2.3		
Other Taxes	220.6	.7	2.0	2.3	2.3	2.0
Charges & Misc.	1394.2	5.9	5.1	4.5	1.7	1.1
---Total, Own Sources	\$4,103.2	17.3	15.2	17.4	9.3	7.5
---Federal Aid	721.3	3.0	3.1	3.9	1.3	1.0
-----NEBRASKA TOTAL	\$4,824.5	20.3	18.3	21.2	10.6	8.5
-----U.S. TOTAL	\$785,844.2	19.4	18.8	20.8	10.9	8.5
Source: U.S. Department of Commerce, Bureau of the Census, <i>Government Finances: 1988-89</i> , GF-89-5, February, 1991, p. 73.						

State and Local Taxes

Most tax revenues, such as those that come from property, general sales, and individual and corporate income are used for any of a wide range of public services. Some tax revenues, such as motor fuel taxes and sales taxes on motor vehicles, are designated for a specific purpose, in this case, highway construction and maintenance.

Property taxes, all of which are collected for the use of local units of government, continue to be the single largest source of revenue for state and local government combined. Prior to the 1990 passage of LB 1059, which significantly altered the manner in which elementary and secondary education is funded in Nebraska, property taxes often equaled or exceeded all state tax collections. In FY 1991, taxes collected for state government generated about 20 percent more revenue than property taxes.

General sales and use taxes plus individual income taxes have been the primary source of revenue for state government since the late 1960s. In FY 1991, sales taxes amounted to about \$550 million, while individual income tax receipts totaled about \$615 million. Corporate income taxes added another \$78 million to the state total.

"Other taxes" include, but are not limited to, taxes on tobacco products, alcoholic beverages, insurance premiums and charitable gaming. Theoretically, taxes on pari-mutuel racing also are included here, but since FY 1987, no revenue has been generated from this source because of a change in the economics of the horse-racing industry.

Charges, Federal Aid, and Miscellaneous Revenues

Charges for services (e.g., education and hospitals) have been growing in importance and now rank second only to property taxes as a funding source. Sales taxes rank third followed by federal aid, even though federal aid has declined on a relative basis since the late 1970s. Like charges, federal aid tends to be designated for specific uses (e.g., highways). Miscellaneous revenues include interest earned on short-term investment of available funds.

The relative importance of revenue sources for state and local governments in Nebraska is compared to the U.S. average in *Table V*. In addition to a heavy dependence on property taxes, Nebraska state and local governments received more from charges than the average for all states.

Other states, on average, were more dependent on sales, income, and other taxes plus federal aid.

Table V. Percentage distribution of state and local general revenue, by source, U.S. and Nebraska, FY 1989.		
Source	U.S. Average	Nebraska
Federal Aid	16.0	15.0
Property Taxes	18.1	23.3
Sales & Gross Receipts Taxes	21.1	18.3
Income Taxes	15.7	11.5
Other Taxes	4.7	3.0
Current Charges	13.3	18.7
Miscellaneous	11.1	10.2
TOTAL	100.0%	100.0%
Source: U.S. Department of Commerce, Bureau of the Census, <i>Government Finances: 1988-89</i> , GF-89-5, February, 1991, p. 21.		

Issues in Funding Public Goods and Services

The essence of public goods and services is that they are purchased and used collectively. Decisions about funding state and local services will continue to be based on a mix of economic, demographic, social and political factors.

When funds are limited, economics dictate that public expenditures should be for goods and services that provide the greatest benefits to society. But because such costs and benefits are difficult to measure (either in economic or social terms), funding decisions inevitably will continue to come from the give-and-take of the political arena.

In the context of the four key questions posed near the beginning of this NebGuide, no other state has a tax-and-spending system directly applicable to Nebraska. Diversity among the states assures this. Still, we can learn from other states while acknowledging our own uniqueness. The following list of state and local finance issues is offered in that spirit:

1. Nebraska is a large state geographically (ninth largest), but a small state with respect to population (36th largest). The population is skewed heavily toward the eastern third of the state. (Douglas, Lancaster and Sarpy counties currently account for just under half of the state's population.)

At issue is how to divide public spending and taxing fairly when large areas of the state need basic public services for relatively few people, while more heavily populated areas have special needs attributable to population concentration.

2. Nebraska's population is growing older. During the decade of the 1980s, the number of residents 65 and over increased by 8.5 percent, while the number under 20 dropped by 6.5 percent. This has implications for public spending by category, e.g., social services, education, etc.

3. Like other states, Nebraska is affected by program mandates from the federal government that require significant state and/or local funding. Medicaid and special education are prime examples. The dilemma is to find funding for other urgent needs outside the mandated programs.
4. Nebraska ranks near the top among the states in units of government per capita. On one hand, this offers opportunities for greater local participation and control of government. On the other, it raises questions about the overall efficiency of government in Nebraska.
5. Nebraska, unlike states like Wyoming and Nevada, has limited opportunities to "export" tax obligations to others outside the state. (Wyoming accomplishes this through a severance tax on minerals, and Nevada taxes casino earnings, a significant portion of which are derived from out-of-state visitors.)

With federal aid falling on a relative basis, it seems likely Nebraskans will have to depend even more on the "big four" revenue sources in the future: property, sales, and income taxes, plus charges and fees. An ideal revenue system should rely on the principles of equity and fairness (with particular attention given to ability to pay), benefits received, stability of income, ease of administration, and economic neutrality. None of the revenue sources identified above meets all desirable criteria. The best that can be hoped for is an appropriate balance of revenue sources.

Citizens ultimately must decide how much they are willing to spend on public goods and services vis-a-vis private goods and services. Moreover, a generally accepted standard for tracking expenditures, such as public-sector spending relative to personal income, would be desirable.

¹The Advisory Commission on Intergovernmental Relations is another federal agency that conducts extension studies of state/local finances using census data.

²Direct general expenditures include all payments to employees, suppliers, contractors, beneficiaries and other final recipients of government payments; i.e., all expenditures other than intergovernmental expenditures. Funding for expenditures comes from state and local taxes, federal aid, charges and miscellaneous sources.

³ General revenue includes all government revenue except liquor store revenue, insurance trust revenue and utility revenue.

File G727 under: GENERAL AGRICULTURE

D-1, Finances

Revised March 1992; 5,000 printed.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Elbert C. Dickey, Director of Cooperative Extension, University of Nebraska, Institute of Agriculture and Natural Resources.

University of Nebraska Cooperative Extension educational programs abide with the non-discrimination policies of the University of Nebraska-Lincoln and the United States Department of Agriculture.