

Center for Rural Affairs

Analysis of Proposed Constitutional Amendment: Lid on State Spending

An analysis of the proposed constitutional amendment to limit appropriations by the Nebraska Legislature reveals that had such a spending lid existed since Fiscal Year 1996-97, state General Fund appropriations would have been decreased by \$2.3 billion and General Fund appropriations for aid to local governments would have been decreased \$831.7 million through Fiscal Year 2005-06.

The state spending initiative proposes a spending limit on state General Fund appropriations by the Legislature of the greater of 1) the preceding fiscal year appropriations increased by a percentage amount equal to adding the annual inflation rate and state's population growth, or 2) the preceding year's spending limit. Employing data from the U.S. Bureau of Labor Statistics (the Midwest regional Consumer Price Index, the "inflation rate" defined in the proposed constitutional amendment) and the U.S. Census Bureau (statewide annual population increases), it was found that in the period from FY97-98 (using FY96-97 as the spending baseline) to FY05-06, the annual spending lid had the proposed constitutional amendment existed during this period would range from 2.26 percent to 4.11 percent.

Based on data from the Nebraska Legislative Fiscal Office and Nebraska biennial budget reports, it was found that hypothetical General Fund appropriations during the period would have declined over \$2.3 billion from actual General Fund appropriations, a 9.49 percent decrease over the period examined. During the period, actual General Fund appropriations for aid to local governments (K-12 school aid; aid to counties and municipalities; aid to Natural Resource Districts; aid to community colleges) ranges from 37.3 percent to 33.9 percent of total General Fund appropriations. Over the entire period examined, aid to local governments comprised 35.78 of General Fund appropriations.

Assuming aid to local governments remained at the same percentage of the General Fund appropriations had the proposed constitutional amendment existed during the period in question and assuming a reduction in aid to local governments by the same percentage as the total General Fund appropriations, aid to local governments would have declined by nearly \$831.7 million during the period.

Reductions in total General Fund appropriations and aid to local governments would have been greater in FY 2005-06 than over the period in general. Based on a 2.96 percent lid for FY 2005-06, total General Fund appropriations would have declined by 14.5 percent had the proposed constitutional amendment existed. Based on that decrease in General Fund appropriations, aid to local governments would have decreased by over \$147 million in Fiscal Year 2005-06.

Any decreases in aid to local governments would have to be absorbed by local units of governments and local taxpayers in two methods – increases in local property taxes and/or decreases in the budgets of local units of governments. The ability of many local units of government to absorb decreases in state aid under a state spending limit without significant cut-backs in services is also questionable given that statutorily mandated spending limits and property tax levy limits already exist on most units of local government.

