Research Report on America's Cities

# Cities & State Fiscal Structure

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National League of Cities

*Research Report*

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Chris Hoene and Mike Pagano

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# INTRODUCTION

State fiscal systems have the potential to create an environment that is conducive to economic vitality. This is particularly the case at the sub-state, or local and regional, levels where the units of government are corporations of state government and local fiscal structure is largely determined by state governments. To ensure economic vitality, state fiscal systems should provide sufficient fiscal autonomy for localities to fund their share of resident needs. In addition, states should take steps to support local fiscal capacity and minimize fiscal inequities among local governments. The academic literature on state-local fiscal policy indicates that greater flexibility on the part of the localities, given appropriate controls by the state, tends to be superior fiscal policy.

Following this logic, this report examines state-local fiscal structures and the way in which state fiscal regimes do or do not create a fiscal environment that makes it difficult for municipalities to effectively fund their own activities – including those that contribute to economic development at the local and regional levels.[1]

Our analysis is organized around two critical concepts. The first concept focuses on state fiscal structures and the extent to which states restrict the scope of fiscal control of municipal governments. The second concept, related to the first in that it recognizes the nesting of local governments within state structures, explores other arenas of state authority that limit or expand the fiscal capacity of municipal governments. Within these two concepts, we examine five criteria:

1. ***Municipal fiscal authority***, which refers to state's proscribing and granting access to general taxes, that is, a general tax on sales, income, and property;
2. ***Municipal revenue reliance***, which refers to the proportion of total revenues that a municipality generates from one particular revenue source or from several sources;
3. ***Municipal revenue capacity*** in terms of the ability of municipalities to control the majority of their revenues;
4. ***State aid***, or the amount of state support for a municipality as a proportion of its total revenues; and
5. The existence of ***tax and spending limits***, which constrain local fiscal autonomy by requiring that local governments tax or spend according to state regulations.

1 We use the terms "cities" and "municipalities" broadly to refer to all municipal governments

Any analysis of state-local fiscal structures should begin with a caveat about the wide variation that exists. Because states largely determine the structure, there are in essence fifty state-local fiscal systems in the United States. Within those fifty systems lie different sets of rules for different levels of government – municipalities, counties, towns, townships, villages, etc. – at which point the variation spreads from 50 states to 19,000 municipalities, 16,000 towns and villages, and 4,000 counties. The capacity for variation, therefore, makes analysis difficult, context important, and some level of generalization necessary for the sake of comparison.

A key distinction to acknowledge at the outset is that the function of public education, a required service in all states, is not organized in a uniform manner. The majority of states utilize systems where schools are governed through an independent level of government – school districts. However, some states make schools a dependent service provided by general purpose local governments – either as a function of incorporated municipalities or as a county responsibility.[2] The handling of education, perhaps the most significant of state-local services from the public's perspective, is important within the analysis presented below, as those counties or municipalities in states in which schools are dependent local government services tend to be more reliant upon local property taxes, less fiscally autonomous, and more dependent upon state aid.

2 These states include Alaska, Connecticut, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Rhode Island, Tennessee, and Virginia.

Despite the tremendous variation, our analysis attempts some comparison of state-local fiscal systems across the five criteria noted above.

Throughout the report we make distinctions among states about whether they appear to be "ahead of the pack," "with the pack," or "behind the pack" in terms of where they sit relative to other states on each of the five evaluated criteria. These distinctions are subjective and are based on normative assumptions we make about the components of a preferred state-local structure. The distinctions in each case are referring to the states' treatment of, or structure for, their respective municipalities.

# 1. AUTHORITY

We first examine the tax authority of municipal governments.[3] Our normative position is that more local authority is better. Because the underlying composition of any local government's economic base varies from jurisdiction to jurisdiction, we contend that local governments know how best to match their revenue-raising tools to the underlying economy. Imposing a uniform revenue and tax structure by the state ignores the within-state variation of local governments' economic bases and of their diverse spending needs. Although 'more local authority is better' in an abstract sense, local governments must also examine the administrative costs prior to adopting or expanding revenue and taxing authority. If the transaction costs exceed the revenue-generating potential of a certain tax, even if that tax matches the economic base of the local government, it certainly would not be a recommended policy option. In addition, while our normative position is that more local authority is desired, the state may need to structure local authority to encourage uniformity and simplicity in local tax systems.

We examine the three major sources of state and local tax revenue – the property tax, sales tax, and income tax. We rate municipalities as having authority if they have a local option to control the tax rate (within some increment; they have some ability to shift the rate) and if the revenues are for general use (e.g., not earmarked for specific uses).

The most fiscally autonomous municipalities would, therefore, be allowed a local option for all three tax sources and the revenues from those sources would all be for general use. We come to this position based on the assumption that local governments are in the best position to ascertain both the benefits of a diverse revenue-raising toolkit and the costs of implementing such tax policies.

No state uniformly authorizes its municipalities to utilize all three tax sources. States are deemed to be "ahead of the pack" if they have access to at least two sources and a third source for some jurisdictions. For example, municipalities in Alabama have access to a local option property tax and sales tax, and a local option occupation tax, or income tax, paid by those working in municipalities that opt to use the tax. The states of Missouri (income tax for Kansas City and St. Louis), New York (income tax for New York City and Yonkers), and Pennsylvania (sales tax for Philadelphia) provide special tax options for individual municipalities. Even though this state grant of authority does not extend to all municipalities, these local governments

3 State-by-state information on local tax authority is drawn from four sources: (1) *Critical Issues in State-Local Tax Policy: A Guide to Local Option Taxes* (National Conference of State Legislatures, 1997); (2) *Home Rule in American*, by Dale Krane, et. al. (1999); (3) A survey of and follow up contact with state municipal leagues; and (4) a review of state government websites.

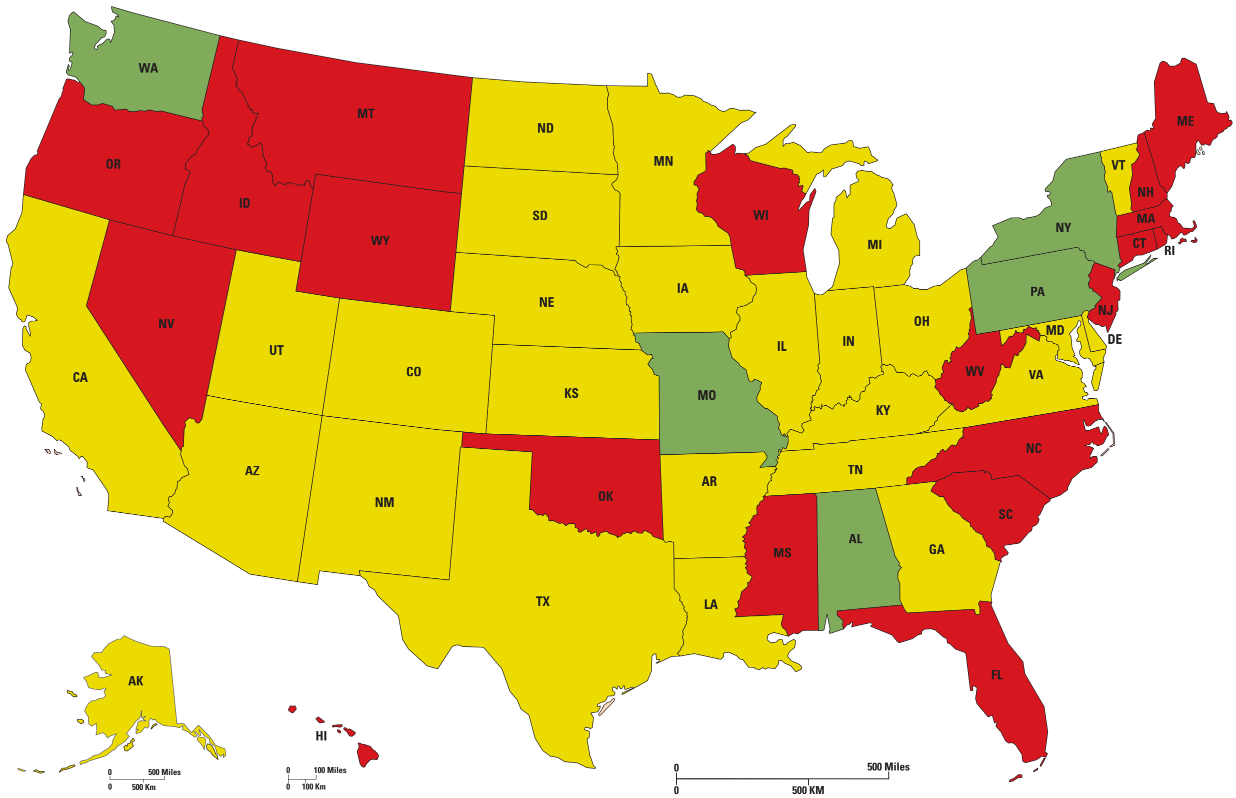



**Figure 1**[4]
**Municipal Tax Authority**

**Key:**
- = Property + Sales + Income
- = Property + Sales or Income
- = Property or Sales Only

4 In some cases, the state may not provide authority to all municipalities. For notes about special circumstances, cases, and provisions by state, see Table 1 in the Appendix.

represent a substantial population group (New York City's population amounts to more than half the state's; Philadelphia is the largest municipality in Pennsylvania). Arkansas technically provides a local option income tax for municipoalities, in addition to a local property and sales tax, but the income tax option is rarely, if ever, used.

Although municipalities in Ohio, Kentucky and Washington have access to only two revenue sources, we place them in the "ahead of the pack" group because of the broad base of their non-property taxes. For Ohio's and Kentucky's municipalities, they are permitted to tax personal income at both the place of employment and the place of business, making their income taxes a 'commuter' tax as well as a tax on residents. Moreover, they are authorized to tax business profits at the same rate as individual income. The base, therefore, is substantial. Washington's municipalities are authorized to impose a "business and occupancy" tax which is a tax on all businesses (including services) that perform work or sell services within the jurisdiction and on all incomes that are derived from working within the municipality. Although the rate is quite low, the revenues derived from the B&O tax are quite substantial. In other words, the B&O tax operates much like a broad-based sales tax, including services, and income tax.[5]

States are grouped as "with the pack" if their municipal governments have access to two tax sources. For example, municipalities in Kansas can use a local property tax and a local sales tax. A property-sales tax mix is the combination found for municipalities in most states. Notable exceptions are found in Michigan and Delaware where some form of local income tax-like option is provided in addition to a local property tax.

Michigan is special case in the 'with the pack' group because the largest municipality in the state, Detroit, is authorized to levy a tax on income for both residents and commuters. The 'base', consequently, is broader and in line with good fiscal policy which taxes users of services and not just residents.

States receive "behind the pack" ratings when their municipalities have access to one or no local tax source. For example, municipalities in many New England states only have access to a local property tax. The property tax is the lone local source in almost all instances for these states, except for Oklahoma where the only local general purpose tax revenues come from a sales tax.[6] Several states in this category provide very limited authority for a second tax source and we include them in this "behind the pack" category as a result. For example, "resort cities" in Idaho with populations less than 10,000 may levy a local sales tax. Although we place Arizona in the 'with the pack' category, it is also a special case in that several cities are not authorized to levy a property tax for any purpose without a vote of the electorate. Mesa, Arizona, for example, with a population of approximately 400,000, is the largest municipality in the nation without access to the property tax.[7]

5 Local income taxes, as we refer to them here, are not always referred to as income taxes by the individual states. In Kentucky, for instance, cities and counties levy two income-related taxes, an occupational license tax on income earned in a jurisdiction by individuals and a net profits tax on businesses.

6 Oklahoma's municipalities can levy a property tax for debt service.

7 Requiring voter approval for the use of non-property local option taxes, particularly sales taxes, is a much more common practice.

# 2. RELIANCE

We also examine the extent to which municipal governments rely upon the three major tax sources as a share of general revenue.[8] First, we looked to see if they are heavily reliant upon one source of revenue (usually the property tax).[9] Beyond this group, we look to see if municipalities have access to an inelastic source of revenue (the property tax) and an elastic source of revenue (sales or income tax). The terms "elastic" and "inelastic" refer to how quickly revenues collected from an individual tax source respond to changes in the underlying economy. Generally, property tax revenues are considered more inelastic or less responsive to economic changes, mainly because it takes deeper, longer-term economic shifts to impact housing values, which determine property tax collections, as well as because of assessment practices. Assessment practices vary in large part because of the inexact science of estimating the value of land and property until the property is exchanged on the market. Sales and income taxes are considered more elastic because consumer sales and personal income are quicker to respond to economic shifts. We argue that a mix of elastic and inelastic revenues sources provides municipalities with stability to buffer against economic downturns, but also allows them to capture revenue growth during periods of economic growth.[10]

Our analysis of municipal revenue reliance reveals that "ahead of the pack" states are those states where municipalities receive revenues from two tax sources, plus a third source for municipalities with a substantial share of the state population (the two major municipalities in Missouri – Kansas City and St. Louis – and the largest city in New York – New York City). While 19 cities in Alabama utilize a local income tax, total city reliance on local income tax revenues remains low.

Two levels of "with the pack" states emerged in the analysis. The first group includes those states where municipalities are reliant on two tax sources, usually some combination of property and sales. The second group includes states where municipalities are reliant on one tax source with some degree, or low level, of reliance, on a second tax source. This second group is populated by states where municipalities have a second local tax option, but the reliance on this option is low.

"Behind the pack" states are those where municipalities are reliant upon one revenue source, usually the property tax. This can take two forms: (a) those states where municipalities are heavily reliant upon one source (for example, Connecticut) or (b) those with only one local

8 "General revenue" as defined by the U.S. Census of Governments, including all local revenues except revenues from utilities and liquor store operations.

9 Measured as one standard deviation above the mean reliance (% share of general revenue) on an individual tax source). Throughout the report we generally used the mean and standard deviation statistics to determine break points for differences among states. However, in some cases, due to wide variation that can result when the N=50, more natural, but subjective, breaking points in the distribution of states are utilized to delineate differences. This is the case for our measure of reliance, resulting in some states being included in the heavily reliant on one source group

10 The data on local revenues by state utilized to assess local revenue reliance are from the U.S. Census of Governments, covering FY2002, the most current year available to date.

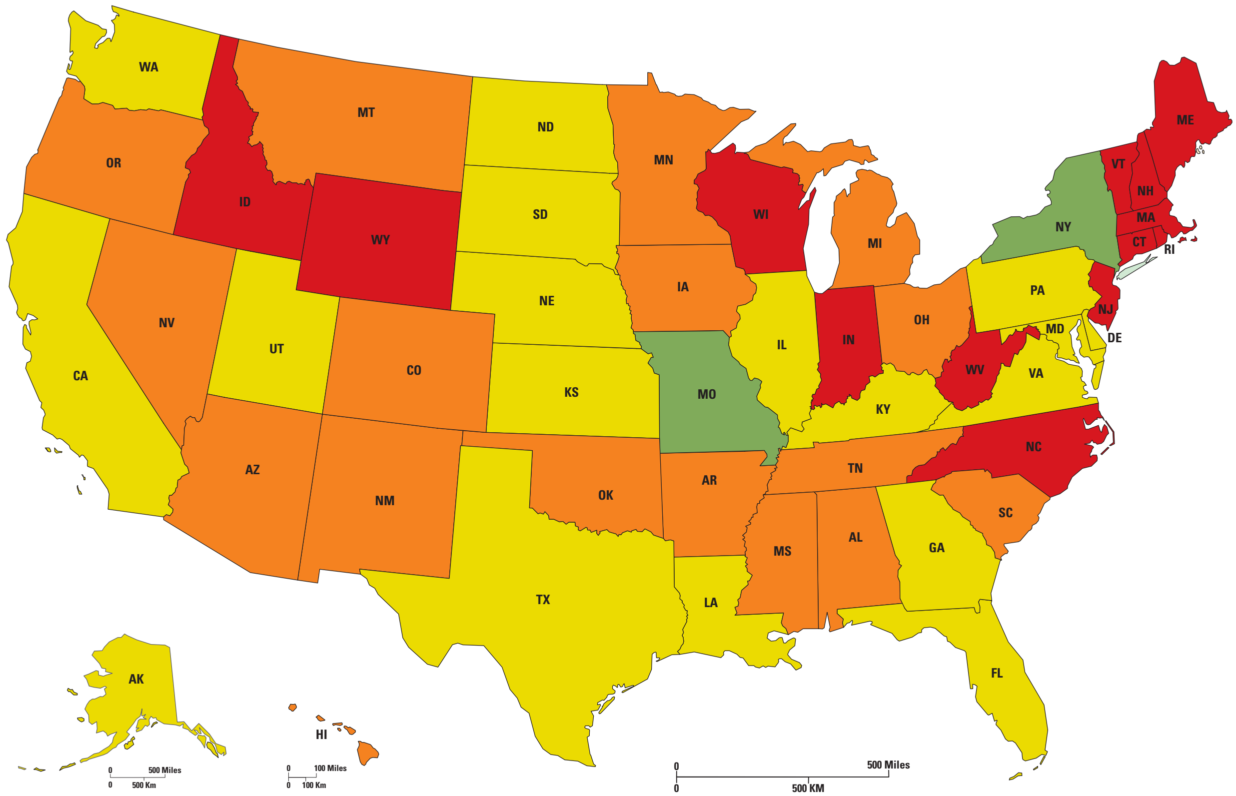



**FIGURE 2**[11]
**Municipal Revenue Reliance**

**Key:**
- = 3 Sources
- = 2 Sources
- = 1 Source + Low 2nd Source
- = 1 Source

11 For mean standard deviation, and percent of revenues from each source, see Appendix.

tax source and even that source is relatively low as a share of general revenue (Idaho). Returning to our earlier discussion of the states where local governments have dependent schools, we usually find that these states are in this "behind the pack" group in municipal revenue reliance, mainly because of a high reliance upon local property taxes. The states of West Virginia and Wyoming stand out as exceptions due to a heavy reliance on charges and other revenues. This category, "charges and other revenues" is an own-source revenue-raising capability of local governments and is included in the measure of reliance.

# 3. OWN-SOURCE CAPACITY

The intersection between local authority and revenue reliance can be captured in a measure we call "own-source capacity."[12] Here, we seek to gauge to the extent to which fiscal policy decisions made by municipal officials actually may determine the fiscal direction of their municipality. We look at where municipalities have authority over a local source and, if so, we count that revenue toward their total own-source capacity revenue. We then add "charges" to this total (since fees and charges are usually set locally) and measure the total as a share of general revenue. We then look at the mean and standard deviation for the distribution. In essence, this measure gauges the extent to which municipalities have the ability to impact the majority of their revenues.

"Ahead of the pack" states are those where municipal own-source capacity is more than one standard deviation above the mean. We identify two sets of "with the pack" states where the own-source capacity of municipalities is clustered around the mean. The first group is comprised of those states above the mean. Not surprisingly

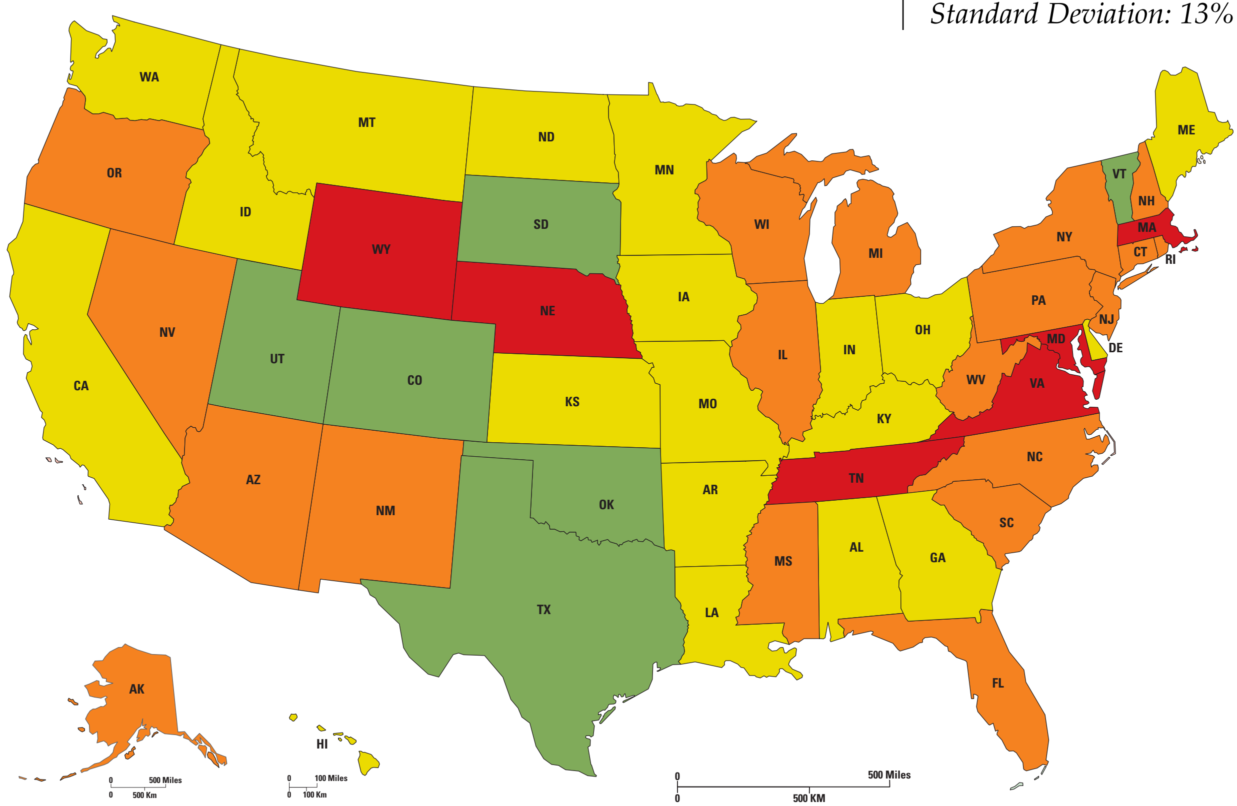
12 Our measure of "own-source revenue capacity" differs from a commonly used census definition of "own-source revenues" in that local revenues are not counted as own source if there is no local authority (using our definition of authority based on a local option that can be used for general purposes).

**FIGURE 3**
**Muncipal Revenue Capacity**

**Key:**
= >80%
= 68-80%
= 54-67%
= <54%

*Mean: 67%*

*Standard Deviation: 13%*



many of these states are two-tax source states, with Idaho being one exception in the list.

A second group of states contains those where the municipalities own-source capacity is below the mean.

Lastly, "behind the pack" states are those where municipalities own-source capacity is more than one standard deviation below the mean.

Once again, most of the states where schools are dependent parts of local governments can be found in the "behind the pack" category, with the notable exception of Vermont.

# 4. STATE AID

Another way that the fiscal capacity of municipalities is increased is through state aid.[13] While it could be argued that too much state aid makes municipalities beholden to the state, generally, well-structured state aid increases the overall capacity of municipal governments and in many instances provides a level of equalization and base support for municipalities that may lack other resources. State aid to school districts, for example, often utilizes an equalization formula to ensure that the states meet court-required responsibilities for providing an 'adequate' or 'foundation' support to school children. For general-purpose local governments, however, states provide aid for a host of reasons, including redistributional purposes, general government support, and other reasons that enhance the fiscal capacity of the recipient governments. We measure state aid as the share of general revenue from state sources, regardless of intent. We also distribute states according to their ranking based on the mean and standard deviation for state aid.

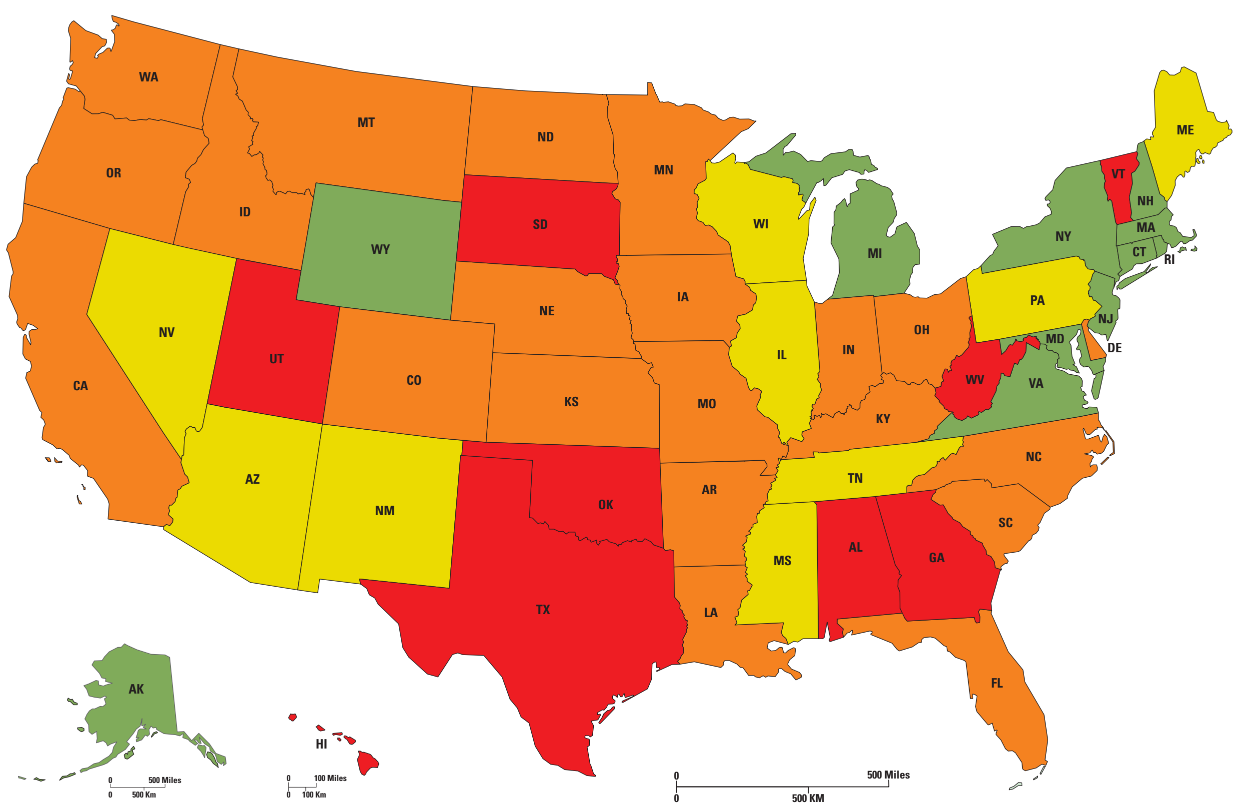
13 Data here are drawn from the U.S. Census of Governments.

**FIGURE 4**
**State Aid to Municipalities**

**Key:**
- = >31%
- = 20-31%
- = 7-19%
- = <7%

*Mean = 19%*

*Standard Deviation = 12%*



States that appear to be "ahead of the pack" are those where the municipalities' share of general revenue from state aid is more than one standard deviation above the mean. The states in this grouping are mainly those where the municipalities have dependent schools, plus Wyoming because the state distributes its oil severance taxes to municipalities.

"With the pack" states are those where the share of general revenue from state aid is clustered within one standard deviation of the mean, which we separated into two groups, those above and below the mean, as in figure 4.

As with previous measures, "behind the pack" states are those where the share of general revenue from state aid is more than one standard deviation below the mean.

States where authority and reliance seemed limited, but nevertheless scored high on capacity (Idaho, Vermont) fall near the bottom of the list on state aid, suggesting that they do not have much capacity (own-source or state-provided).

# 5. TAX AND EXPENDITURE LIMITS (TELS)

Another way that state and local tax systems are constrained in significant ways is through voter- or state-imposed (constitutional or statutory) tax and expenditure limitations, often referred to, in short, as TELs. There are two types of TELs that we examine here – those that constrain the property tax in particular and those that constrain overall revenue spending increases.

At the local level, the most common TELs affect local governments' property taxes, while general revenue and spending limits are less common. Within property tax limitations, there are other important distinctions that we use based on different types of limits. Three types of property tax limits exist: (1) those that seek to cap the property tax rate, (2) those that seek to limit growth in local property assessments, and (3) those that seek to limit the total levy (revenues) growth from property taxes from year to year. Not all of these types of limits are individually binding in that a rate limit alone might be circumvented by raising assessments, or an assessment limit alone might be circumvented by raising the property tax rate. We therefore make a distinction between relatively "non-binding" and "potentially binding" property tax limits. Potentially binding limits are those in which there is either a levy limit (because it caps the bottom line level at which the levy might increase) or some combination of rate and assessment limits together, thereby negating the ability of localities to circumvent the limits.

General revenue and spending limits are considered potentially binding on their own since they create caps on revenue and/or spending growth.[14]

We identify two "ahead of the pack" groups of states with respect to TELs and municipalities. The most "ahead" group is comprised of states where there are no TELs (property or general). The lesser "ahead" group is comprised of those states where a non-binding property tax limit is in place for municipal governments. Interestingly, several of the more fiscally constrained New England states, such as Connecticut, New Hampshire, and Vermont, are found in this group due to the absence of TELs.

States in the "with the pack" group all have a potentially binding property tax limit in place for municipal governments (either a levy

14 This nonbinding-potential binding approach is well-documented within the academic and analytical literature on TELs. For instance, see Mullins and Wallin in *Public Budgeting in Finance* (2005).

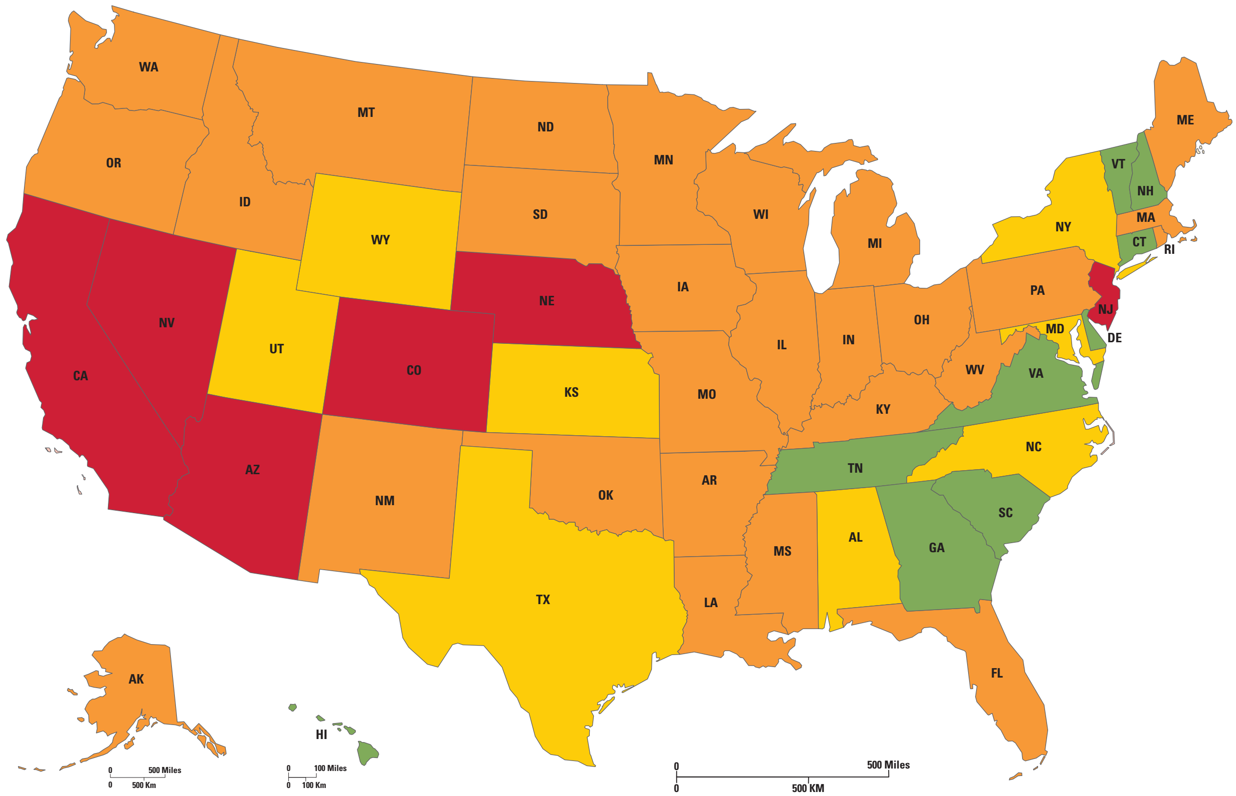



**FIGURE 5**
**Tax and Expenditure Limits**

**Key:**
- = No TELs
- = Non-binding property tax limit
- = Binding property tax limit
- = Binding property tax limit + general limit

limit, or a combination tax rate-assessment limit(s)).

"Behind the pack" states have both a potentially binding property tax limit for municipal governments and a general revenue or expenditure limit that applies to municipal governments. In other words, these are states where municipalities face the most significant sets of limits on their local tax/fiscal authority.

Thirty-three of 50 states have potentially binding limits in place for municipalities, indicating the prevalence ofTELs among municipal governments across the country.

# Summary

Some sense of groupings of states into "ahead of the pack" and "behind the pack" is possible based on their relative positions on each of the five criteria. There are more states that appear to be "behind the pack" than there are states that appear to be "ahead of the pack," and even for the latter group there are usually qualifications, such as provisions of local authority for a few selected local governments.

Several states stand out as "ahead of the pack." The states of Alabama and Missouri both provide some municipalities with a higher level of local authority, namely by allowing Alabama municipalities and Missouri's two largest municipalities authorization to levy an income tax in addition to the local property and sales tax. More local authority is, however, offset by low levels of state aid relative to other states and, for Missouri, a potentially binding TEL also figures into the mix. New York and Pennsylvania, also appear to be ahead of the pack. New York provides additional local authority to a significant sector of the state's population through granting New York City and Yonkers the authority to levy income taxes. In New York's case, there is a relatively high level of state aid provided to municipalities as well, and New York's TEL is relatively non-binding, at least as currently structured. Similarly, Pennsylvania provides some additional local authority through the sales tax provided to Philadelphia (no other municipality is permitted to levy a sales tax), its state aid level is particularly high, but it has a potentially binding TEL.

Municipalities in Ohio, Kentucky and Washington are also placed in the 'ahead of the pack' category due to their broad-based tax bases. Moreover, even though all three operate under 'potentially binding' property tax limitations, the effect is in large part mitigated by the broad tax base. In this regard, municipalities in these states are less likely to adjust tax or assessment issues because the tax bases are flexible and broad. Municipalities in states whose tax bases are narrow might be inclined to adjust their revenues by tinkering with the property tax system; the municipalities in these three states have more options. Hence, we place them in the 'ahead of the pack' group.

Our assessment of "behind the pack" municipalities places considerable weight on local authority and reliance in combination with low ratings on one of the other factors. For example, a group of states are characterized by low authority and reliance in combination with a potentially binding TEL (Idaho, Maine, Massachusetts, New Jersey, and Rhode Island). Another set of states are characterized by low levels of authority, reliance, and state aid (North Carolina, Oregon) or low levels of authority, reliance, and capacity (Connecticut and New Hampshire). West Virginia perhaps has the most constrained combination, with low levels authority, reliance, state aid, and the presence of a potentially binding TEL.

## Implications for Policy

The policy implications of the analysis of state-local fiscal structure presented here are straightforward. For state policymakers, there are obvious policy levers to pull to improve the fiscal and economic vitality of local governments. Providing more local tax authority is the most obvious level.

Maintaining and/or increasing state aid levels, particularly where state aid reduces inequities within the state, is another lever that is often pulled in the opposite direction, particularly in response to economic downturns, but where the result might often be to harm the medium- and longer-term ability of the state to recover from the downturn.

Pressures to pass tax and spending limits in state legislatures and via state ballot measures seems to be a now-permanent part of the political landscape of state and local government, whether it is the progeny of California's Proposition 13 (1978) or Colorado's Taxpayer Bill of Rights (TABOR, 1992), or more recent efforts in numerous states. State and local policymakers would be wise to resist the easy temptation of providing tax relief by undermining local fiscal capacity and look to the economic ramifications and unintended consequences for those states where TELs are most restrictive. If nothing else, changing the structure of TELs already passed (easier for statutory TELs than those permanently enshrined in state constitutions) so that they are less binding, or even temporarily suspended as in the case of Colorado's TABOR, would seem a wise, if politically challenging, course of action.

## What's Missing? The State Regulatory Environment and The Changing Balance of Power

The five criteria utilized to assess state-local fiscal structures focus primarily on the mix of local autonomy and overall capacity that state rules and systems provide or enable for municipal governments. A key piece missing from the analysis is an assessment of the state regulatory environment. State regulatory behavior can be both onerous and helpful in creating an environment conducive to economic vitality. On the onerous end, states can impose mandates that are not accompanied by resources, thereby harming local government fiscal health. On the other end, states can regulate or incentivize behavior at the local level to minimize harmful, zero-sum competition for economic development among local governments, such as by regulating local use of tax incentives and abatements or by incentivizing local cooperation through state aid rewards.

Our analysis does not yet provide an assessment of the state regulatory environment mainly due to a lack of readily available, comparative data and information. Subsequent iterations of this work will attempt to provide some insight into the state regulatory arena using interview and survey data. Nevertheless, the five criteria utilized here provide a useful framework for beginning to compare the relative strengths and weaknesses of state-local fiscal systems.

A final caveat to this analysis is that the balance of power in state-local fiscal relationships is ever-changing and is often dramatically altered by economic conditions and political expediencies. Economic downturns can lead to cuts in state aid and attempts to provide statewide tax relief that often further constrain local authority. Economic upswings are often accompanied by expansions of programs and additional transfers of revenue and responsibility among state and local governments. However, authorization of more local revenue authority is rare in either instance, suggesting that one important policy lever – one that has the potential to leverage local economic vitality – is underutilized and ought to be considered more seriously by state policy makers.

# APPENDIX:

## Table 1: Municipal Tax Authority by State

| State | Notes |
|---|---|
| Alabama | Property, sales, income (19 cities) |
| Alaska | Property, sales |
| Arizona | Property (with voter approval), sales |
| Arkansas | Property, sales, income (not used by any municipality) |
| California | Property, sales |
| Colorado | Property, sales |
| Connecticut | Property |
| Delaware | Property, income (Wilmington only) |
| Florida | Property |
| Georgia | Property, sales |
| Hawaii | Property (Honolulu is only municipality in Hawaii) |
| Idaho | Property (sales for resort cities <10,000 pop.) |
| Illinois | Property, sales |
| Indiana | Property, income |
| Iowa | Property, sales |
| Kansas | Property, sales |
| Kentucky | Income, property |
| Louisiana | Property, sales |
| Maine | Property |
| Maryland | Property, income (Baltimore city-county only) |
| Massachusetts | Property |
| Michigan | Property, income (22 cities) |
| Minnesota | Property, sales (some cities, if approved by State Leg.) |
| Mississippi | Property |
| Missouri | Property, sales, income (Kansas City & St. Louis only) |
| Montana | Property (sales for resort cities <5,500 pop.) |
| Nebraska | Property, sales |
| Nevada | Property |
| New Hampshire | Property |
| New Jersey | Property (sales for Atlantic City, Wildwoods only) |
| New Mexico | Property, sales |
| New York | Property, sales, income (New York City & Yonkers only) |
| North Carolina | Property |
| North Dakota | Property, sales |
| Ohio | Income, property |
| Oklahoma | Sales |
| Oregon | Property |
| Pennsylvania | Property, income, sales (Philadelphia only) |
| Rhode Island | Property |
| South Carolina | Property |
| South Dakota | Property, sales |
| Tennessee | Property, sales |
| Texas | Property, sales |
| Utah | Property, sales |
| Vermont | Property (some sales) |
| Virginia | Property, sales |
| Washington | Property, sales, B&O (bus. Income) tax |
| West Virginia | Property |
| Wisconsin | Property |
| Wyoming | Property |

## Table 2: Municipal Revenue Reliance By state

| State | Property Tax | Sales Tax | Income Tax |
|---|---|---|---|
| Alabama | 10% | 43% | 4% |
| Alaska | 39% | 15% | 0% |
| Arizona | 12% | 41% | 0% |
| Arkansas | 7% | 33% | 0% |
| California | 21% | 25% | 0% |
| Colorado | 8% | 39% | 0% |
| Connecticut | 82% | 0% | 0% |
| Delaware | 27% | 2% | 21% |
| Florida | 27% | 20% | 0% |
| Georgia | 19% | 15% | 0% |
| Hawaii | 49% | 12% | 0% |
| Idaho | 41% | 3% | 0% |
| Illinois | 28% | 24% | 0% |
| Indiana | 39% | 2% | 6% |
| Iowa | 40% | 8% | 0% |
| Kansas | 27% | 20% | 0% |
| Kentucky | 14% | 2% | 29% |
| Louisiana | 17% | 38% | 0% |
| Maine | 69% | 1% | 0% |
| Maryland | 49% | 5% | 12% |
| Massachusetts | 71% | 2% | 0% |
| Michigan | 42% | 3% | 9% |
| Minnesota | 30% | 4% | 0% |
| Mississippi | 25% | 5% | 0% |
| Missouri | 11% | 34% | 9% |
| Montana | 31% | 1% | 0% |
| Nebraska | 19% | 26% | 0% |
| Nevada | 23% | 11% | 0% |
| New Hampshire | 69% | 0% | 0% |
| New Jersey | 68% | 1% | 1% |
| New Mexico | 11% | 37% | 0% |
| New York | 32% | 14% | 22% |
| North Carolina | 43% | 2% | 0% |
| North Dakota | 21% | 18% | 0% |
| Ohio | 11% | 1% | 46% |
| Oklahoma | 3% | 40% | 0% |
| Oregon | 36% | 9% | 0% |
| Pennsylvania | 21% | 5% | 29% |
| Rhode Island | 82% | 0% | 0% |
| South Carolina | 31% | 10% | 0% |
| South Dakota | 25% | 31% | 0% |
| Tennessee | 44% | 8% | 0% |
| Texas | 26% | 27% | 0% |
| Utah | 19% | 30% | 0% |
| Vermont | 48% | 3% | 0% |
| Virginia | 47% | 19% | 0% |
| Washington | 20% | 30% | 0% |
| West Virginia | 11% | 7% | 0% |
| Wisconsin | 48% | 1% | 0% |
| Wyoming | 12% | 7% | 0% |
| **Mean** | **32%** | **15%** | **4%** |
| **Standard Deviation** | **20%** | **14%** | **9%** |

*Source:* U.S. Census of Governments, 2002

## Table 3: Municipal Own-Source Revenue Capacity By State

| State | % of General Revenue |
|---|---|
| Alabama | 80% |
| Alaska | 60% |
| Arizona | 63% |
| Arkansas | 74% |
| California | 73% |
| Colorado | 85% |
| Connecticut | 56% |
| Delaware | 78% |
| Florida | 63% |
| Georgia | 73% |
| Hawaii | 68% |
| Idaho | 76% |
| Illinois | 63% |
| Indiana | 68% |
| Iowa | 78% |
| Kansas | 80% |
| Kentucky | 73% |
| Louisiana | 76% |
| Maine | 71% |
| Maryland | 38% |
| Massachusetts | 51% |
| Michigan | 56% |
| Minnesota | 74% |
| Mississippi | 63% |
| Missouri | 80% |
| Montana | 73% |
| Nebraska | 51% |
| Nevada | 54% |
| New Hampshire | 60% |
| New Jersey | 59% |
| New Mexico | 66% |
| New York | 54% |
| North Carolina | 66% |
| North Dakota | 76% |
| Ohio | 76% |
| Oklahoma | 87% |
| Oregon | 66% |
| Pennsylvania | 56% |
| Rhode Island | 59% |
| South Carolina | 55% |
| South Dakota | 88% |
| Tennessee | 53% |
| Texas | 90% |
| Utah | 87% |
| Vermont | 83% |
| Virginia | 53% |
| Washington | 79% |
| West Virginia | 67% |
| Wisconsin | 62% |
| Wyoming | 31% |
| **Mean** | **67%** |
| **Standard Deviation** | **13%** |

***Source:*** Our measure of "own-source capacity," is determined by first assessing the local authority over a given tax source and, if that authority exists, counting that revenue toward the measure. We then added revenues generated through fees, charges, and miscellaneous revenues to the total, since these fees and charges are determined locally. We then measure this total as a share (%) of total municipal general revenues and compare the mean and standard deviations across states. The revenue data are from the U.S. Census of Governments, 2002.

## Table 4: State Aid to Municipalities by State

| State | % of General Revenue |
|---|---|
| Alabama | 6% |
| Alaska | 33% |
| Arizona | 22% |
| Arkansas | 11% |
| California | 13% |
| Colorado | 8% |
| Connecticut | 40% |
| Delaware | 10% |
| Florida | 11% |
| Georgia | 4% |
| Hawaii | 6% |
| Idaho | 13% |
| Illinois | 27% |
| Indiana | 18% |
| Iowa | 13% |
| Kansas | 9% |
| Kentucky | 9% |
| Louisiana | 11% |
| Maine | 25% |
| Maryland | 42% |
| Massachusetts | 44% |
| Michigan | 34% |
| Minnesota | 19% |
| Mississippi | 28% |
| Missouri | 7% |
| Montana | 18% |
| Nebraska | 15% |
| Nevada | 25% |
| New Hampshire | 31% |
| New Jersey | 31% |
| New Mexico | 26% |
| New York | 36% |
| North Carolina | 11% |
| North Dakota | 15% |
| Ohio | 14% |
| Oklahoma | 4% |
| Oregon | 9% |
| Pennsylvania | 24% |
| Rhode Island | 36% |
| South Carolina | 9% |
| South Dakota | 5% |
| Tennessee | 23% |
| Texas | 4% |
| Utah | 6% |
| Vermont | 5% |
| Virginia | 34% |
| Washington | 9% |
| West Virginia | 3% |
| Wisconsin | 28% |
| Wyoming | 45% |
| **Mean** | **19%** |
| **Standard Deviation** | **12%** |

***Source:*** U.S. Census of Governments, 2002

## Table 5: Tax and Expenditure Limits on Municipalities by State

| State | Notes |
|---|---|
| Alabama | Non-binding p-tax limit |
| Alaska | Potential binding p-tax limit |
| Arizona | Binding p-tax + general limit |
| Arkansas | Potential binding p-tax limit |
| California | Binding p-tax + general limit |
| Colorado | Binding p-tax + general limit |
| Connecticut | No TELs |
| Delaware | No TELs |
| Florida | Potential binding p-tax limit |
| Georgia | No TELs |
| Hawaii | No TELs |
| Idaho | Potential binding p-tax limit |
| Illinois | Potential binding p-tax limit |
| Indiana | Potential binding p-tax limit |
| Iowa | Potential binding p-tax limit |
| Kansas | Non-binding p-tax limit |
| Kentucky | Potential binding p-tax limit |
| Louisiana | Potential binding p-tax limit |
| Maine | Potential binding p-tax limit |
| Maryland | Non-binding p-tax limit |
| Massachusetts | Potential binding p-tax limit |
| Michigan | Potential binding p-tax limit |
| Minnesota | Potential binding p-tax limit |
| Mississippi | Potential binding p-tax limit |
| Missouri | Potential binding p-tax limit |
| Montana | Potential binding p-tax limit |
| Nebraska | Binding p-tax + general limit |
| Nevada | Binding p-tax + general limit |
| New Hampshire | No TELs |
| New Jersey | Binding p-tax + general limit |
| New Mexico | Potential binding p-tax limit |
| New York | Non-binding p-tax limit |
| North Carolina | Non-binding p-tax limit |
| North Dakota | Potential binding p-tax limit |
| Ohio | Potential binding p-tax limit |
| Oklahoma | Potential binding p-tax limit |
| Oregon | Potential binding p-tax limit |
| Pennsylvania | Potential binding p-tax limit |
| Rhode Island | Potential binding p-tax limit |
| South Carolina | No TELs |
| South Dakota | Potential binding p-tax limit |
| Tennessee | No TELs |
| Texas | Non-binding p-tax limit |
| Utah | Non-binding p-tax limit |
| Vermont | No TELs |
| Virginia | No TELs |
| Washington | Potential binding p-tax limit |
| West Virginia | Potential binding p-tax limit |
| Wisconsin | Potential binding p-tax limit |
| Wyoming | Non-binding p-tax limit |

# About the Authors

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The National League of Cities is the nation's oldest and largest organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. NLC is a resource and advocate for more than 1,600 member cities and the 49 state municipal leagues, representing 19,000 cities and towns and more than 218 million Americans.

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