NATIONAL LEAGUE of CITIES | CENTER FOR CITY SOLUTIONS AND APPLIED RESEARCH

Cities and State Fiscal Structure

2015

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About the National League of Cities

The National League of Cities (NLC) is the nation's leading advocacy organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. Through its membership and partnerships with state municipal leagues, NLC serves as a resource and advocate for more than 19,000 cities and towns and more than 218 million Americans.

NLC's Center for City Solutions and Applied Research provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches in cities.

About the Authors

Christiana K. McFarland is Research Director of NLC in the Center for City Solutions and Applied Research.

Christopher W. Hoene is Executive Director, California Policy and Budget Center and former NLC Research Director.

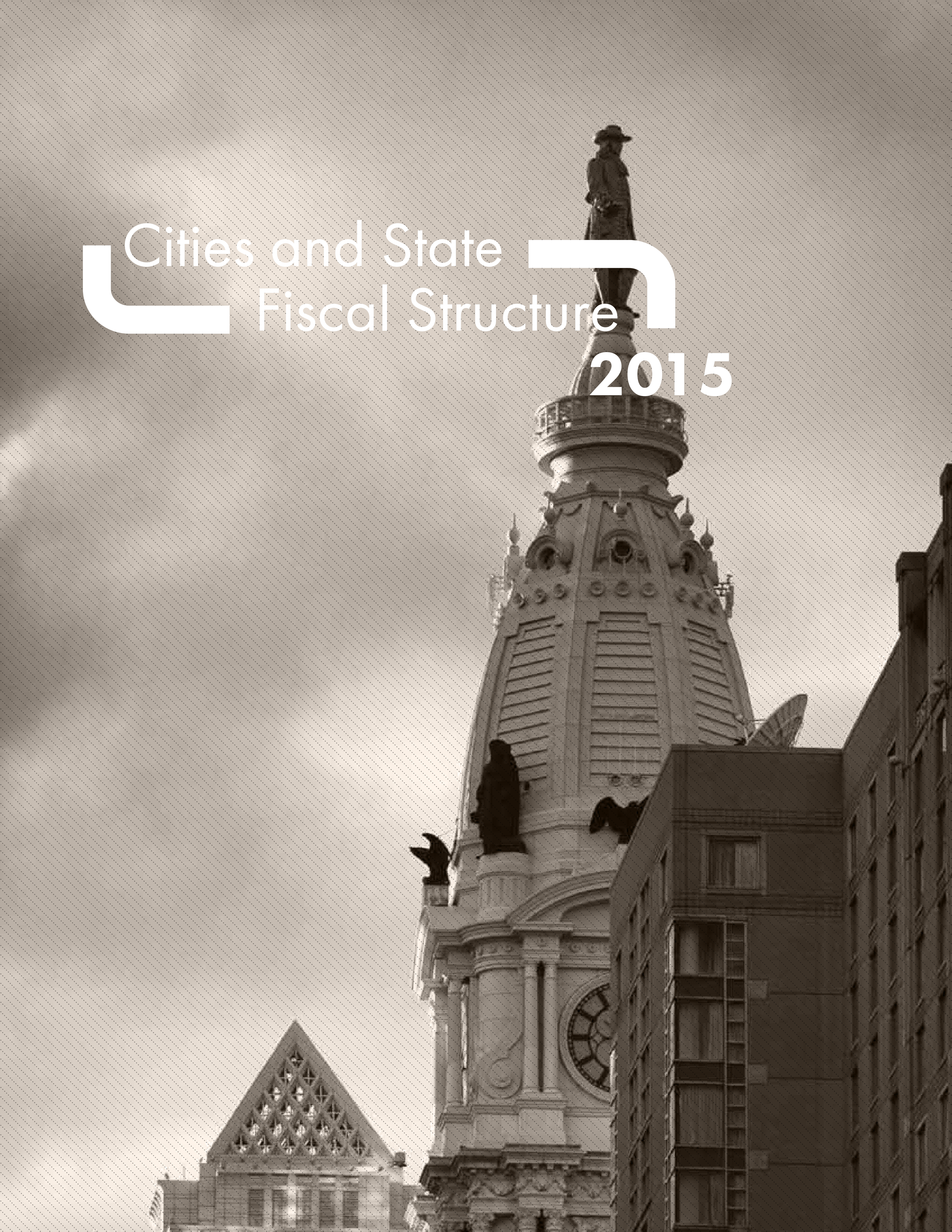
Acknowledgments

This report provides an update to the original *Cities and State Fiscal Structures* analysis conducted in 2008 by Christopher Hoene and Michael Pagano, Dean, College of Urban Planning & Public Affairs at the University of Illinois at Chicago (UIC). It is part of a broader body of ongoing municipal fiscal research conducted by NLC for nearly 30 years, and is the first major project of a research collaborative between NLC and the state municipal leagues.

The primary data used in the analysis, Census of Governments, is updated every five years (those ending in 2's and 7's), most recently in 2012. The report also reflects input from state municipal leagues, specifically updates to taxing authority and limitations, as well as verification of data. Given the difficulty of developing a current, comparative assessment of fiscal structures, their input was truly invaluable.

Many thanks also to those who previously helped craft the fiscal structures framework and develop the report, including staff from both NLC and UIC. All errors and omissions are responsibility of the authors. Financial support from the John D. and Catherine T. MacArthur Foundation supported this year's analysis and is greatly appreciated.

Cities and State Fiscal Structure 2015



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FOREWORD

We are pleased to present *Cities and State Fiscal Structures*, a report developed and published in collaboration with our partners, the state municipal leagues. The state municipal leagues occupy a special position within the National League of Cities. They were the founding members of NLC in 1924 and continue to play an important role, guiding the organization's priorities and serving as an important link to cities in their state.

Cities and State Fiscal Structures is the first report in a research collaborative between NLC and the state municipal leagues. On an annual basis we will be working together to develop research that is important and valuable for both groups, and America's cities.

This year's research on the city-state fiscal relationship builds on NLC's 30 year history of leadership on city finance. Our annual *City Fiscal Conditions* research surveys city finance officers on finance trends, challenges and conditions, collecting both actual general fund information, as well as qualitative data about the insights and opinions of these community leaders.

The purpose of *Cities and State Fiscal Structures* is to provide a comparative assessment of state and local fiscal systems, including taxing authority, revenue reliance and capacity, state aid, and tax and expenditure limits. The goal is provide data and research that support efforts to enhance cities' tools to better meet the fiscal needs of their communities.

Looking to the future, we are excited to continue the research partnership with the state municipal leagues in order to jointly assist cities and towns across the country. Within NLC's Center for City Solutions and Applied Research we strive to strengthen communities, transform and improve cities and assist city leaders. This partnership allows us all to build upon our strengths and provide the needed resources to cities across the country to build a stronger America from the ground up.

Clarence E. Anthony
CEO and Executive Director
National League of Cities

Brooks Rainwater
Director, Center for City Solutions and Applied Research
National League of Cities

INTRODUCTION

More than seven years following the start of the Great Recession, cities' fiscal health is finally beginning the slow climb to recovery. City finance officers are more optimistic about their cities' ability to meet fiscal needs, local workforces are growing, and revenues are improving. The local fiscal outlook continues to be constrained, however, by increases in service costs, long-term infrastructure needs, employee wages, and pension and healthcare obligations. (1)

1. Christiana McFarland and Michael A. Pagano, *City Fiscal Conditions in 2014*, National League of Cities, Washington, DC.

State actions to balance their budgets are adding to cyclical pressures that cities are confronting. These actions include cuts in general aid, cuts in state-shared and/or state-collected revenues, revocation or reduction of reimbursement programs or other transfers, cuts in funding for services that cities and other local governments deliver on behalf of state governments, transfer of state program responsibility, and reductions or limits to local taxing authority. During economic downturns, the decisions that state leaders make to balance budgets often exacerbate the effects of the downturn on other levels of government, employment, and the quality of life and well-being of individuals and communities.

Conversely, 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.

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. (2)

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

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 four 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 and capacity**, which refers to the proportion of total revenues that a municipality generates from its own-sources, thus determining the ability of the municipality to control the majority of its revenues;

3. **State aid**, or the amount of state support for a municipality as a proportion of its total revenues; and

4. **The existence of tax and spending limits**, which constrain local fiscal autonomy by requiring that local governments tax or spend according to state regulations.

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 different state-local fiscal systems in the United States. Within those fifty systems lie distinct 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. (3) 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.

3. 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 four 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 four evaluated criteria. The distinctions in each case are referring to the states' treatment of, or structure for, their respective municipalities. These distinctions are subjective and are based on normative assumptions we make about the components of a preferred state-local structure.

1. MUNICIPAL FISCAL AUTHORITY

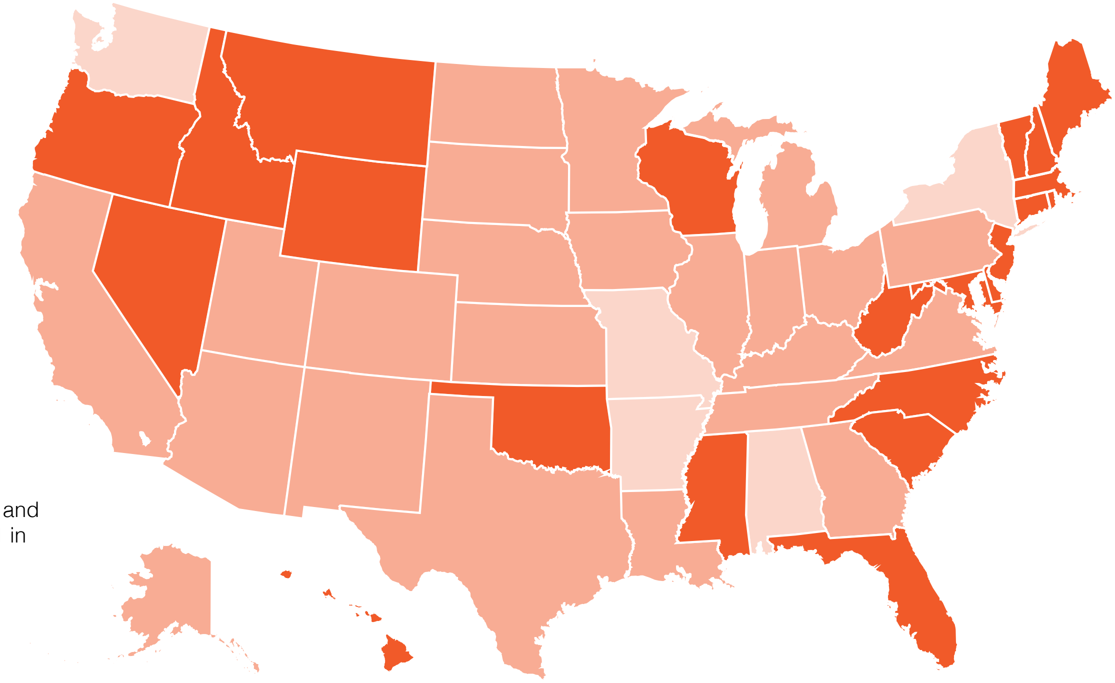
MUNICIPAL FISCAL AUTHORITY

We first examine the tax authority of municipal governments. 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 an option to levy the tax, 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) (see table 1 in appendix).

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. Special tax options for individual municipalities are provided in 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).



Note: 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.

Even though this state grant of authority does not extend to all municipalities, these local governments 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 municipalities, 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 low, the revenues derived from the B&O tax are substantial. In other words, the B&O tax operates much like a broad-based sales tax, including services, and income tax. (4)

States are grouped as "with the pack" if their municipal governments have access to two tax sources. A property-sales tax mix is the combination found for municipalities in most states. For example, municipalities in Kansas can use a local property tax and a local sales tax. 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.

4. 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.

Michigan is a 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. (5) 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. (6)

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

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

2. MUNICIPAL REVENUE RELIANCE & CAPACITY

MUNICIPAL REVENUE RELIANCE & CAPACITY

We also examine the share of general fund revenues derived from local sources, including major taxes (property, sales, income) and charges (since fees and charges are usually set locally). (7) This "own-source capacity" measure gauges whether local fiscal policy decisions can actually determine the fiscal direction of their municipality. (8)

Within own-source capacity, a mix of elastic and inelastic revenue sources is needed to provide municipalities with stability to buffer against economic downturns, and to allow them to capture revenue growth during periods of economic growth. (9) 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.

Municipal revenue reliance is the extent to which municipal governments rely upon these three major tax sources as a share of general revenues (see table 2 in appendix). The most fiscally stable municipalities in the U.S. are those relying on 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).

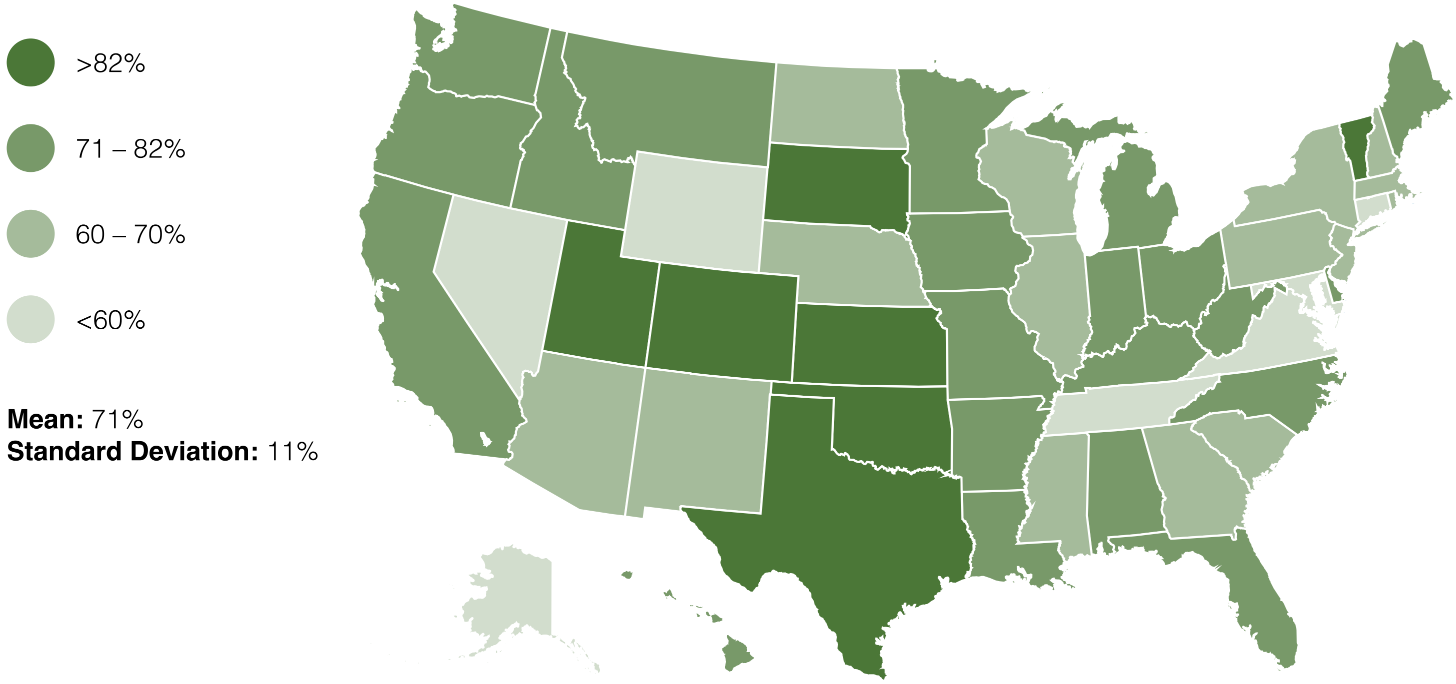
Due to political challenges and other restrictions on local taxes, fees and charges have become an increasing proportion of local revenues. Revenues from "fees, charges and miscellaneous" include administrative and court fees, waste disposal fees, building permits, development impact fees, law enforcement and fire fees, and services such as libraries and parks.

On average, U.S. municipalities derive approximately 71% of their general fund revenues from own-source revenues, including 24% from property taxes, 13% from sales taxes, 3% from income taxes and 32% from fees and charges.

7. "General revenue" as defined by the U.S. Census of Governments, including all local revenues except revenues from utilities and liquor store operations. This definition is broader than how states and cities budget, in which the "general fund" is the annual operating budget, with a series of other funds for special activities/projects.

8. 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).

9. The data on local revenues by state utilized to assess local revenue reliance are from the U.S. Census of Governments, covering FY2012, the most current year available to date.



10. Measured as one standard deviation above the mean capacity (% share of general revenue). Throughout the report we generally used the mean and standard deviation statistics to determine break points for differences among states.

States found to be “ahead of the pack” are those where total municipal own-source capacity is more than one standard deviation (11%) above the mean (71%). (10)

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 many of these states are two-tax source states, with Maine being one exception in this list due to its broad property tax base. 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. Most of the states where schools are dependent parts of local governments can be found in the below-the-mean “with the pack or “behind the pack” categories.

3. STATE AID

STATE AID

Another way that the fiscal capacity of municipalities is increased is through state aid. While it could be argued that too much state aid makes municipalities beholden to the state, in general, 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 (direct state aid), regardless of intent (see table 3 in appendix). We also distribute states according to their ranking based on the mean (17%) and standard deviation (10%) for state aid.

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

>27%

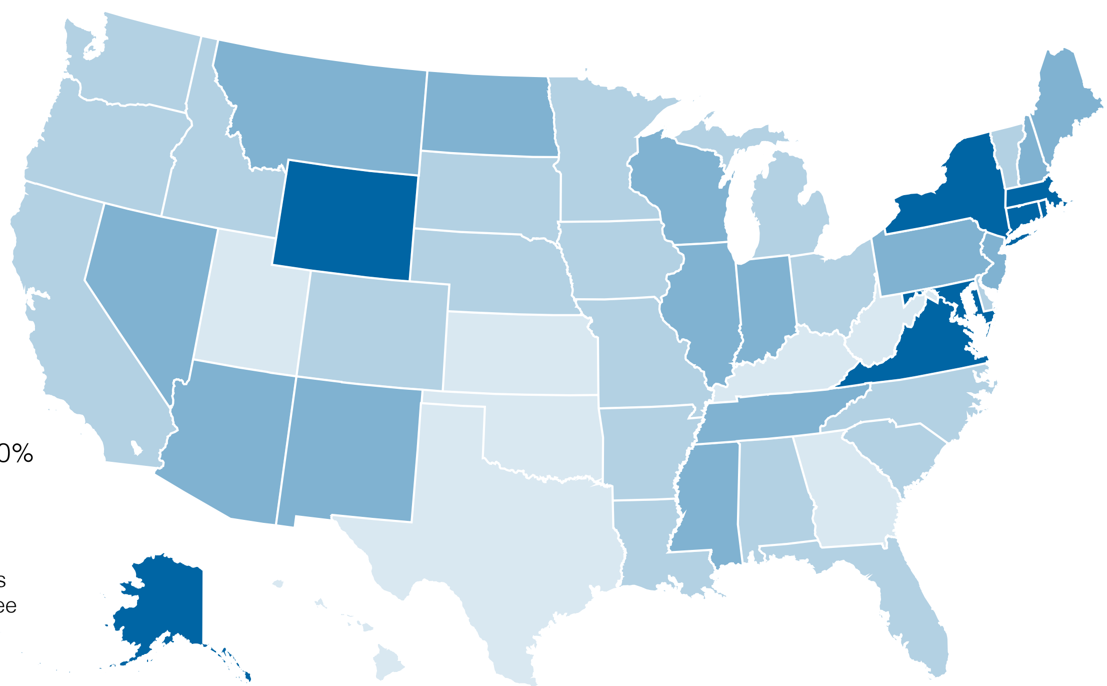
17 – 27%

7 – 16%

<7%

Mean: 17%
Standard Deviation: 10%

Note: For percent of revenues from each source by state, see table 3 in appendix.



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 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.

4. TAX AND EXPENDITURE LIMITS (TELS)

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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.

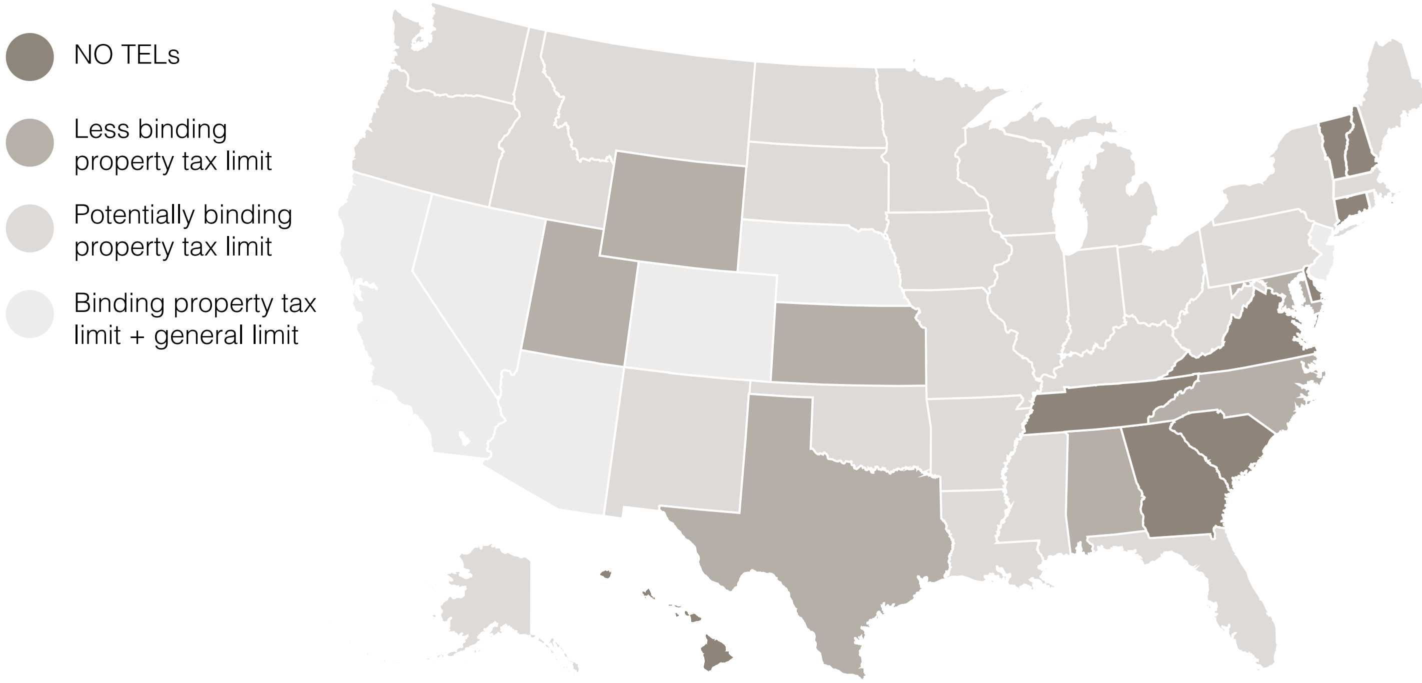
At the local level, the most common TELs affect local governments' property taxes, while general revenue and spending limits are less common. Within property tax limitations, there are other important distinctions that we use based on different types of limits. Three types of property tax limits exist: those that seek to cap the property tax rate; those that seek to limit growth in local property assessments; and those that seek to limit the total levy (revenue) 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 "less (or 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. (11) Thirty-four of 50 states have potentially binding limits in place for municipalities, indicating the prevalence of TELs among municipal governments across the country (see table 4 in appendix).

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). 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. The lesser "ahead" group is comprised of those states where a less binding property tax limit is in place for municipal governments.

11. This less (or non-) binding-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).



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

SUMMARY

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 four 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. Although New York has a potentially binding TEL, the state does provide 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. Similarly, Pennsylvania provides some additional local authority through the sales tax provided to Philadelphia (no other municipality in the state 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 of authority, reliance, state aid, and the presence of a potentially binding TEL.

CONCLUSION

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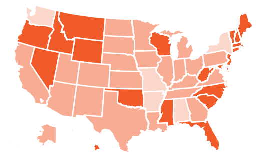
Compared with the 2008 analysis of cities and state fiscal structures, the lack of change in each of the four structure components is striking given radical economic shifts that have ensued, but not wholly unexpected. Local fiscal health remains below pre-recession levels despite burgeoning broader economic recovery in part because authorization of more local revenue authority and other enhanced capacity measures to allow cities to leverage local economic vitality are rare. The policy implications of this analysis of state-local fiscal structure, therefore, are straightforward:

- Expand local tax authority;
- Allow a mix of elastic and inelastic revenue sources to provide municipalities with stability to buffer against economic downturns, and to allow them to capture revenue growth during periods of economic growth;
- Provide well-structured state aid to increase the overall capacity of municipal governments and provide a level of equalization and base support for municipalities that may lack other resources; and
- Resist providing tax relief by undermining local fiscal capacity, look to the economic ramifications and unintended consequences for those states where TELs are most restrictive, and change 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.

The four criteria utilized in this analysis provide a useful framework for comparing the relative strength and weaknesses of state-local fiscal systems. Although this analysis does not assess the state regulatory environment (which, coupled with structure, offers a fuller picture of capacity that state rules and systems provide for municipal governments), prior research indicates that pro-cyclical state fiscal actions, such as unfunded mandates, are also on the rise. Additionally, economic downturns can lead to cuts in state aid and attempts to provide statewide tax relief that often further constrain local authority. As a result of these state actions, as well the political challenges of raising local tax rates, municipalities continue to turn to user fees and charges to support their activities and provide services. The regressive nature of these fees, coupled with rapid changes in sources of growth in the economy, demand that states' policies change to give cities the tools they need to better meet the fiscal needs of their communities.

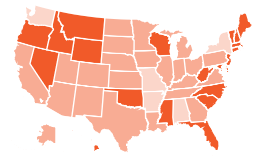
Table 1A: Municipal Tax Authority



State	# of Sources	Notes
Alabama	3	Property, sales, income (19 cities)
Alaska	2	Property, sales
Arizona	2	Property (with voter approval), sales
Arkansas	3	Property, sales, income (not used by any municipality)
California	2	Property, sales
Colorado	2	Property, sales
Connecticut	1	Property
Delaware	1	Property, income (Wilmington only)
Florida	1	Property
Georgia	2	Property, sales
Hawaii	1	Property (Honolulu is only municipality in Hawaii)
Idaho	1	Property (sales for resort cities <10,000 pop.)
Illinois	2	Property, sales
Indiana	2	Property, income
Iowa	2	Property, sales
Kansas	2	Property, sales
Kentucky	2	Income, property
Louisiana	2	Property, sales
Maine	1	Property
Maryland	1	Property, income (Baltimore city-county only)
Massachusetts	1	Property
Michigan	2	Property, income (22 cities)
Minnesota	2	Property, sales (some cities, if approved by State Leg.)
Mississippi	1	Property
Missouri	3	Property, sales, income (Kansas City & St. Louis only)
Montana	1	Property (sales for resort cities <5,500 pop.)
Nebraska	2	Property, sales
Nevada	1	Property
New Hampshire	1	Property
New Jersey	1	Property (sales for Atlantic City, Wildwoods only)
New Mexico	2	Property, sales
New York	3	Property, sales, income (New York City & Yonkers only)
North Carolina	1	Property
North Dakota	2	Property, sales
Ohio	2	Income, property
Oklahoma	1	Sales (property only for debt service)
Oregon	1	Property
Pennsylvania	2	Property, income, sales (Philadelphia only)
Rhode Island	1	Property
South Carolina	1	Property
South Dakota	2	Property, sales
Tennessee	2	Property, sales
Texas	2	Property, sales
Utah	2	Property, sales
Vermont	1	Property (some sales)
Virginia	2	Property, sales
Washington	3	Property, sales, B&O (business income) tax
West Virginia	1	Property
Wisconsin	1	Property
Wyoming	1	Property

1. Local income taxes, as referred to here, are not always labeled as income taxes in 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. **2.** Cities are rated as having authority if they have a local option to control the tax rate (or within some increment they have the abiltiy to shift the rate) and if the revenues are for general use. **3.** Groups in Table 1B are based on the number of sources. In some cases, special authority to levy a particular tax is granted to a small number of jurisdictions and not for all cities. In these instances, states are grouped in a category based on whether the authority covers a sizeable share of the state's population (larger cities) or is, in aggregate (all cities revenues added together), a significant share of the state total revenues in that category.

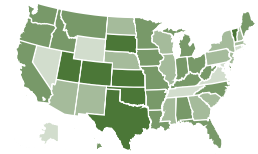
Table 1B: Municipal Tax Authority - Groups



State	# of Sources	Notes
Connecticut	1	Property
Delaware	1	Property, income (Wilmington only)
Florida	1	Property
Hawaii	1	Property (Honolulu is only municipality in Hawaii)
Idaho	1	Property (sales for resort cities <10,000 pop.)
Maine	1	Property
Maryland	1	Property, income (Baltimore city-county only)
Massachusetts	1	Property
Mississippi	1	Property
Montana	1	Property (sales for resort cities <5,500 pop.)
Nevada	1	Property
New Hampshire	1	Property
New Jersey	1	Property (sales for Atlantic City, Wildwoods only)
North Carolina	1	Property
Oklahoma	1	Sales (property only for debt service)
Oregon	1	Property
Rhode Island	1	Property
South Carolina	1	Property
Vermont	1	Property (some sales)
West Virginia	1	Property
Wisconsin	1	Property
Wyoming	1	Property
Alaska	2	Property, sales
Arizona	2	Property (with voter approval), sales
California	2	Property, sales
Colorado	2	Property, sales
Georgia	2	Property, sales
Illinois	2	Property, sales
Indiana	2	Property, income
Iowa	2	Property, sales
Kansas	2	Property, sales
Kentucky	2	Income, property
Louisiana	2	Property, sales
Michigan	2	Property, income (22 cities)
Minnesota	2	Property, sales (some cities, if approved by State Leg.)
Nebraska	2	Property, sales
New Mexico	2	Property, sales
North Dakota	2	Property, sales
Ohio	2	Income, property
Pennsylvania	2	Property, income, sales (Philadelphia only)
South Dakota	2	Property, sales
Tennessee	2	Property, sales
Texas	2	Property, sales
Utah	2	Property, sales
Virginia	2	Property, sales
Alabama	3	Property, sales, income (19 cities)
Arkansas	3	Property, sales, income (not used by any municipality)
Missouri	3	Property, sales, income (Kansas City & St. Louis only)
New York	3	Property, sales, income (New York City & Yonkers only)
Washington	3	Property, sales, B&O (business income) tax

Source notes: 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 America, by Dale Krane, et. al. (1999); **3.** A survey of state municipal leagues conducted in 2007-08 and 2015; and **4.** Updated information from state and local government websites conducted in 2014-15.

Table 2A: Municipal Revenue Reliance & Capacity, as a % of General Revenue

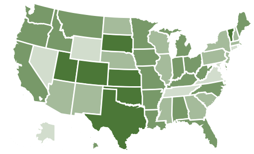


State	Property Tax	Sales Tax	Income Tax	Fees, Charges, & Misc.	Total Own-Source Capacity
Alabama	11%	41%	2%	23%	77%
Alaska	25%	9%	0%	24%	58%
Arizona	8%	29%	0%	31%	68%
Arkansas	7%	28%	0%	39%	74%
California	25%	18%	0%	38%	80%
Colorado	10%	32%	0%	41%	84%
Connecticut	49%	0%	0%	8%	57%
Delaware	22%	2%	15%	34%	73%
Florida	24%	14%	0%	39%	77%
Georgia	19%	11%	0%	40%	70%
Hawaii	37%	16%	0%	26%	78%
Idaho	35%	2%	0%	42%	79%
Illinois	22%	16%	0%	29%	67%
Indiana	30%	1%	7%	34%	72%
Iowa	30%	7%	0%	40%	78%
Kansas	22%	20%	0%	42%	85%
Kentucky	13%	8%	25%	37%	82%
Louisiana	14%	28%	0%	30%	72%
Maine	46%	0%	0%	24%	71%
Maryland	28%	3%	6%	18%	55%
Massachusetts	44%	1%	0%	15%	60%
Michigan	29%	3%	5%	36%	73%
Minnesota	30%	4%	0%	45%	80%
Mississippi	17%	3%	0%	49%	69%
Missouri	9%	29%	6%	37%	81%
Montana	27%	1%	0%	43%	71%
Nebraska	18%	19%	0%	33%	70%
Nevada	16%	9%	0%	28%	54%
New Hampshire	51%	0%	0%	18%	68%
New Jersey	50%	1%	0%	15%	65%
New Mexico	9%	30%	0%	29%	67%
New York	22%	9%	16%	15%	61%
North Carolina	35%	13%	0%	32%	79%
North Dakota	13%	17%	0%	34%	65%
Ohio	8%	1%	38%	29%	76%
Oklahoma	5%	40%	0%	46%	91%
Oregon	33%	8%	0%	33%	74%
Pennsylvania	14%	8%	23%	21%	65%
Rhode Island	51%	1%	0%	15%	67%
South Carolina	26%	11%	0%	31%	67%
South Dakota	17%	33%	0%	36%	86%
Tennessee	23%	8%	0%	26%	57%
Texas	26%	24%	0%	39%	89%
Utah	19%	25%	0%	42%	86%
Vermont	37%	4%	0%	41%	83%
Virginia	30%	12%	0%	16%	57%
Washington	18%	25%	0%	38%	80%
West Virginia	10%	9%	0%	55%	74%
Wisconsin	38%	1%	0%	27%	66%
Wyoming	4%	3%	0%	26%	34%
U.S. Total	**24%**	**13%**	**6%**	**28%**	**71%**

Source Note: U.S. Census of Governments, 2012

1. "General Revenue" is used as defined by the U.S. Census of Governments, including all local revenues except revenues from utilities and liquor store operations. The U.S. Census definition of "General Revenue" is broader than most cities' definitions of "General Fund Revenue." **2.** Groups in Table 2B are delineated based on the mean and standard deviation for municipal own-source capacity. The mean is 71% and the standard deviation is 11%. Groups are separated based on whether they are one or two standard deviations from the mean (for instance, 71% +/- 11% for one standard deviation). **3.** The measure of "own-source revenue capacity" is determined by first assessing the local authority over a given tax source and, if that authority

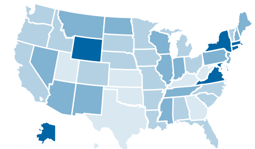
Table 2B: Municipal Revenue Reliance & Capacity, as a % of General Revenue



State	Property Tax	Sales Tax	Income Tax	Fees, Charges, & Misc.	Total Own-Source Capacity
Oklahoma	5%	40%	0%	46%	91%
Texas	26%	24%	0%	39%	89%
Utah	19%	25%	0%	42%	86%
South Dakota	17%	33%	0%	36%	86%
Kansas	22%	20%	0%	42%	85%
Colorado	10%	32%	0%	41%	84%
Vermont	37%	4%	0%	41%	83%
Kentucky	13%	8%	25%	37%	82%
Missouri	9%	29%	6%	37%	81%
Washington	18%	25%	0%	38%	80%
California	25%	18%	0%	38%	80%
Minnesota	30%	4%	0%	45%	80%
Idaho	35%	2%	0%	42%	79%
North Carolina	35%	13%	0%	32%	79%
Hawaii	37%	16%	0%	26%	78%
Iowa	30%	7%	0%	40%	78%
Alabama	11%	41%	2%	23%	77%
Florida	24%	14%	0%	39%	77%
Ohio	8%	1%	38%	29%	76%
West Virginia	10%	9%	0%	55%	74%
Arkansas	7%	28%	0%	39%	74%
Oregon	33%	8%	0%	33%	74%
Delaware	22%	2%	15%	34%	73%
Michigan	29%	3%	5%	36%	73%
Louisiana	14%	28%	0%	30%	72%
Indiana	30%	1%	7%	34%	72%
Montana	27%	1%	0%	43%	71%
Maine	46%	0%	0%	24%	71%
Georgia	19%	11%	0%	40%	70%
Nebraska	18%	19%	0%	33%	70%
Mississippi	17%	3%	0%	49%	69%
New Hampshire	51%	0%	0%	18%	68%
Arizona	8%	29%	0%	31%	68%
Rhode Island	51%	1%	0%	15%	67%
South Carolina	26%	11%	0%	31%	67%
New Mexico	9%	30%	0%	29%	67%
Illinois	22%	16%	0%	29%	67%
Wisconsin	38%	1%	0%	27%	66%
Pennsylvania	14%	8%	23%	21%	65%
New Jersey	50%	1%	0%	15%	65%
North Dakota	13%	17%	0%	34%	65%
New York	22%	9%	16%	15%	61%
Massachusetts	44%	1%	0%	15%	60%
Alaska	25%	9%	0%	24%	58%
Connecticut	49%	0%	0%	8%	57%
Virginia	30%	12%	0%	16%	57%
Tennessee	23%	8%	0%	26%	57%
Maryland	28%	3%	6%	18%	55%
Nevada	16%	9%	0%	28%	54%
Wyoming	4%	3%	0%	26%	34%
U.S. Total	**24%**	**13%**	**6%**	**28%**	**71%**
Mean	24%	13%	3%	32%	71%
Standard Deviation					11%

exists, counting that revenue toward the measure. Revenues from fees, charges, and miscellaneous revenue were then added since these sources are determined locally. The combined revenues, as a percentage of total general revenues, results in the "own-source revenue capacity" measure presented here. This measure differs from a commonly used U.S. census definition of "own-source revenues" in that local revenues are not counted as own source if there is no local authority using the definition (from Table 1) of authority based on a local option that can be used for general purposes. **4.** The U.S. totals are the totals for all cities' revenues added together for all states and are not averages/means.

Table 3A: State Aid to Municipalities

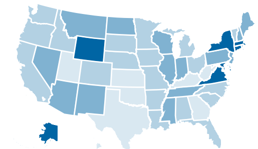


State	% of Gen Rev	Notes
Alabama	8%	
Alaska	36%	Includes schools
Arizona	21%	
Arkansas	9%	
California	8%	
Colorado	7%	
Connecticut	39%	Includes schools
Delaware	12%	
Florida	8%	
Georgia	3%	
Hawaii	4%	
Idaho	14%	
Illinois	24%	
Indiana	19%	
Iowa	10%	
Kansas	5%	
Kentucky	5%	
Louisiana	13%	
Maine	24%	Includes schools
Maryland	32%	Includes schools - Baltimore city/county only
Massachusetts	35%	Includes schools
Michigan	16%	
Minnesota	13%	
Mississippi	23%	
Missouri	8%	
Montana	19%	
Nebraska	11%	
Nevada	26%	
New Hampshire	26%	Includes schools
New Jersey	24%	Includes schools
New Mexico	22%	
New York	30%	Includes schools
North Carolina	11%	
North Dakota	27%	
Ohio	13%	
Oklahoma	3%	
Oregon	11%	
Pennsylvania	22%	
Rhode Island	29%	Includes schools
South Carolina	7%	
South Dakota	8%	
Tennessee	25%	Includes schools
Texas	4%	
Utah	6%	
Vermont	9%	
Virginia	32%	Includes schools
Washington	9%	
West Virginia	3%	
Wisconsin	24%	
Wyoming	39%	
U.S. Total	**18%**	

Source note: U.S. Census of Governments, 2012

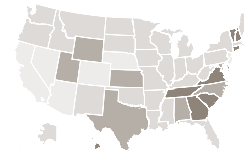
1. "General Revenue" is used as defined by the U.S. Census of Governments, including all local revenues except revenues from utilities and liquor store operations. The U.S. Census definition of "General Revenue" is broader than most cities' definitions of "General Fund Revenue." **2.** "State aid" is defined as general revenues that cities receive from state governments. **3.** Groups in Table 3B are delineated based on the mean and standard deviation for municipal own-source capacity. The mean is 17% and the standard deviation is 10%. Groups are separated based on whether they are one or two standard deviations from the mean (for instance, 17% +/- 10% for one standard deviation). **4.** U.S. total is the total for all cities' state aid added together for all states and is not an average/mean.

Table 3B: State Aid to Municipalities - Groups



State	% of Gen Rev	Notes
Wyoming	39%	
Connecticut	39%	Includes schools
Alaska	36%	Includes schools
Massachusetts	35%	Includes schools
Virginia	32%	Includes schools
Maryland	32%	Includes schools - Baltimore city/county only
New York	30%	Includes schools
Rhode Island	29%	Includes schools
North Dakota	27%	
Nevada	26%	
New Hampshire	26%	Includes schools
Tennessee	25%	Includes schools
Maine	24%	Includes schools
Illinois	24%	
New Jersey	24%	Includes schools
Wisconsin	24%	
Mississippi	23%	
New Mexico	22%	
Pennsylvania	22%	
Arizona	21%	
Montana	19%	
Indiana	19%	
Michigan	16%	
Idaho	14%	
Minnesota	13%	
Ohio	13%	
Louisiana	13%	
Delaware	12%	
Oregon	11%	
Nebraska	11%	
North Carolina	11%	
Iowa	10%	
Arkansas	9%	
Washington	9%	
Vermont	9%	
South Dakota	8%	
California	8%	
Missouri	8%	
Florida	8%	
Alabama	8%	
South Carolina	7%	
Colorado	7%	
Utah	6%	
Kentucky	5%	
Kansas	5%	
Hawaii	4%	
Texas	4%	
Oklahoma	3%	
Georgia	3%	
West Virginia	3%	
U.S. Total	**18%**	
Mean	17%	
Standard Deviation	10%	

Table 4A: Tax & Expenditure Limits (TELs) on Municipalities

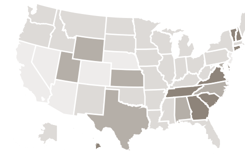


State	Notes
Alabama	Less binding property tax limit
Alaska	Potentially binding property tax limit
Arizona	Binding property tax limit + general limit
Arkansas	Potentially binding property tax limit
California	Binding property tax limit + general limit
Colorado	Binding property tax limit + general limit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

Source notes: State-by-state information on local tax authority is drawn from the following sources: **1**. National Conference of State Legislatures (various years); **2.** Home Rule in America, by Dale Krane, et. al. (1999); **3.** A survey of state municipal leagues conducted in 2007-08 and 2015; **4.** The Lincoln Institute of Land Policy's tracking of local property tax limits, and **5.** Updated information from state and local government websites conducted in 2014-15.

1. At the local level, the most common tax and expenditure limits (TELs) affect local governments' property taxes, while general revenue and spending limits are less common. Within property tax limitations, there are different distinctions that are based on types of limits. Three types of property tax limit exist: (1) those that seek to cap the property tax rate, (2) those that seek to limit growth in local property tax assessments, and (3) those that seek to limit the total levy (revenue) growth from property taxes from year to year. Not all of these types of limits are individually binding. A rate limit alone might be circumvented by raising assessments, or an assessment limit alone might be circumvented by raising the property tax rate. Therefore, "potentially

Table 4B: Tax & Expenditure Limits (TELs) on Municipalities



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

binding” property tax limits are defined as those in which there is either a levy limit (because it caps the bottom line level of revenue growth allowed) or some combination of rate and assessment limits together, thereby negating the ability of localities to circumvent the limits. **2.** General revenue and spending limits are considered potentially binding on their own because these limits create caps on year to year revenue and/or spending growth. **3.** Groupings in Table 4B are based on the combination of limits confronting cities in particular states. Cities with no TELs are, by defition, the least restricted. Cities confronting only less binding property tax limits (the ability to raise the rate or assessments) are less restricted than cities confronting potentially binding property tax limits. Cities with a combination of potentially binding property tax limits and general revenue/spending limit are considered to confront the most restrictions on their local authority. **4.** The “less (or non-) binding/potentially binding” distinction is well-documented within the academic and analytical literature on TELs. For instance, see Mullins and Wallin in Public Budgeting and Finance (2005).

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1301 Pennsylvania Avenue, NW
Suite 550
Washington, D.C. 20004
202.626.3000 | www.nlc.org

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