National Trends in State Aid and State-Imposed Limitations on Local Government Revenue

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City Fiscal Conditions in 2013

The nation’s city finance officers report that the fiscal condition of cities in 2013 is improving, although they are continuing to confront the prolonged effects of the economic downturn. Recovering local and regional economies experiencing slowly improving housing markets and increased consumer spending are strengthening local tax bases and economic outlooks. However, high levels of unemployment, uncertainty about federal and state actions, and long-term pension and health benefit obligations continue to constrain the fiscal outlook for many cities. Cities operate under an annual balanced-budget requirement, which requires that they actively consider adjustments to their fiscal powers – both revenues and expenditures – over the course of the fiscal year.

The National League of Cities’ (NLC) latest annual survey of city finance officers finds that:

- Overall, a majority of city finance officers (72%) report that their cities are better able to meet financial needs in 2013 than in 2012;
Recession
July 1990 - March 1991

Recession
March – November 2001

Recession
December 2007 – June 2009

Recession
December 2007 – June 2009

Recession
March – November 2001

Year-to-Year Change in Municipal General Fund Tax Receipts
(Constant Dollars)
Income or sales tax for selected cities. 
Cities can levy a local income tax, but no locality currently does so.
A local income tax under certain circumstances.
Sales tax only; cities can levy a property tax for debt-retirement purposes only.
Cities can impose the equivalent of a business income tax.
Sales taxes for selected cities and/or restricted use only.

Municipal Revenue Reliance by State

Three tax sources

Two tax sources

One source + low 2nd source

One tax source
Ending Balances (as percentage of expenditures)  
(Municipalities’ General Funds)
Local Autonomy Defined: Fiscal Policy Space of Cities

• FPS= a confined decision space within which city officials are permitted to take action, and shaped by the following attributes:

1) Intergovernmental System (tax authority, TELs, revenue reliance, state aid)
2) Economic base
3) Local legal context
4) Citizen/consumer demand
5) Political culture

Fiscal Policy Space of Cities

The financial support of the John D. and Catherine T. MacArthur Foundation is gratefully appreciated.
Federal Aid as Percent of Municipal General Revenue

1967: 1.7%
1972: 1.1%
1977: 11.9%
1982: 9.0%
1987: 4.8%
1992: 2.1%
1997: 2.4%
2002: 2.4%
2007: 3.0%
2011: 2.4%
Average State Aid Per Capita
(Constant 2011 dollars)

$6,709
$2,451
$2,849
$2,320
$2,722
$3,109
$3,324
$4,025
$4,054

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<th>1 source</th>
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<td>Cities with per capita income growth from 2000 to 2010 below (mean - 1SD)</td>
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<td>Cities with locally-imposed binding TELs</td>
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**TEL Scale**

- **Straitjacket!**
- **Free Zone!**
State Aid as Percent of Municipal General Revenue by TEL Group

- No TEL
  - 13.14%
  - 17.11%
  - 19.42%
  - 17.31%
  - 18.96%
  - 18.88%
  - 17.44%
  - 21.76%
  - 20.73%
  - 16.11%

- Non-Binding
  - 10.55%
  - 13.50%
  - 19.23%
  - 17.53%
  - 21.65%
  - 19.77%
  - 19.02%
  - 19.17%
  - 17.79%
  - 14.25%

- Potentially-Binding
  - 7.14%
  - 27.61%
  - 27.46%
  - 21.65%
  - 24.78%
  - 17.92%
  - 18.10%
  - 17.92%
  - 14.25%
  - 12.95%

- Non-/Potentially Binding with Limits on Revenue
  - 10.92%
  - 17.92%
  - 18.10%
  - 17.20%
  - 17.79%
  - 14.25%
  - 14.17%
  - 12.95%
State Aid as Percent of Municipal General Revenue by TEL Group

- 0%
- 5%
- 10%
- 15%
- 20%
- 25%
- 30%

- 1967
- 1972
- 1977
- 1982
- 1987
- 1992
- 1997
- 2002
- 2007
- 2011

% of state aid in general revenue

- No TEL
- Non-Binding
- Potentially-Binding
- Non-/Potentially Binding with Limits on Revenue
- Binding
State Aid & TEL

• State aid increased when TELs were first enacted (late 1970s - early 1980s)
• State aid has decreased in the past decade, regardless TEL stringency
• Different state aid change for different TEL group
  – State aid to cities with no TELs or non-binding TELs follows a similar pattern with the state aid to all cities
  – Cities subject to more restrictive TELs also experience more fluctuation in state aid
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