

Federal Reserve Bank of Chicago
and Civic Federation
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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.² 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:

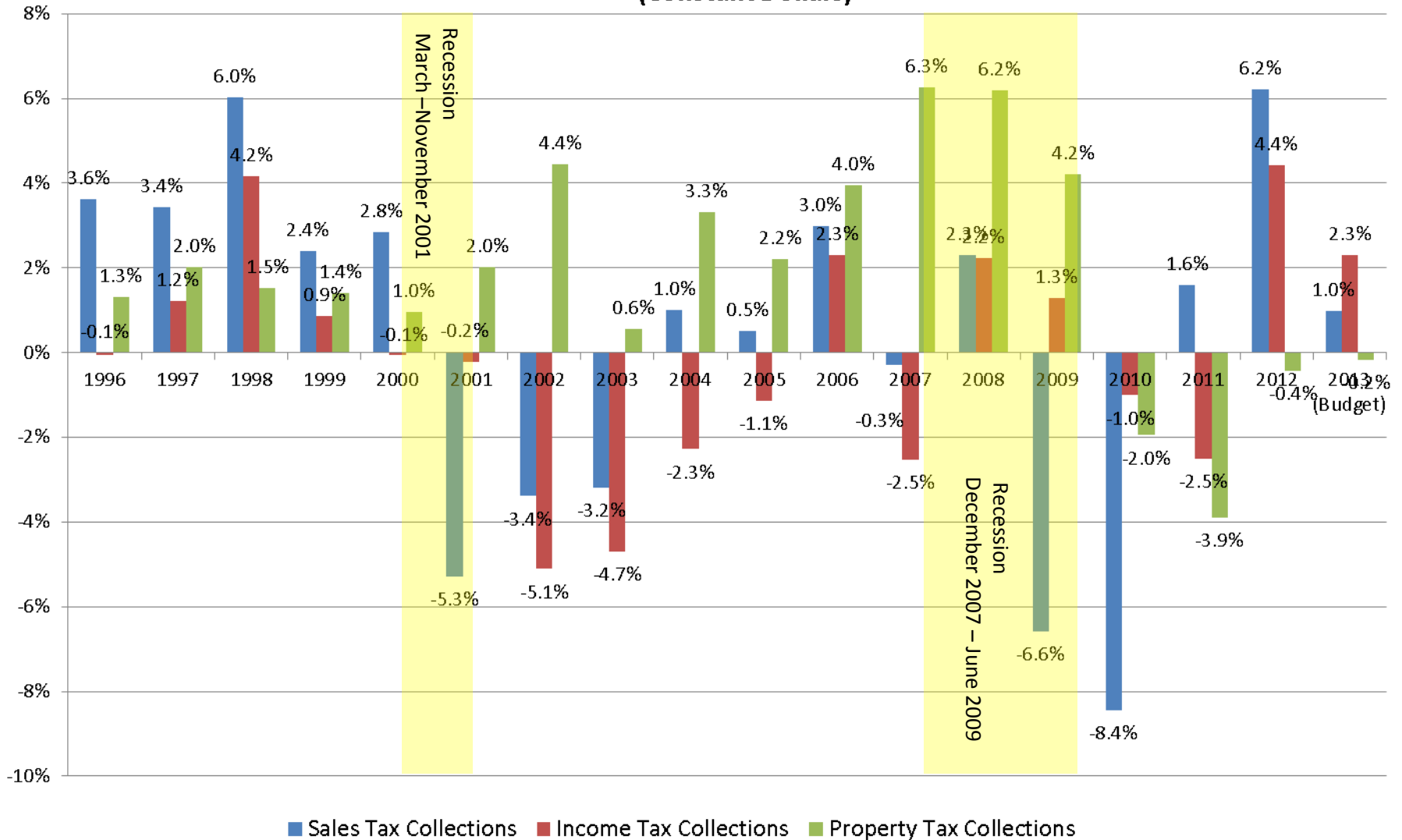
- Overall, a majority of city finance officers (72%) report that their cities are better able to meet financial needs in 2013 than in 2012;

Year-to-Year Change in Municipal General Fund Revenues and Expenditures (Constant Dollars)

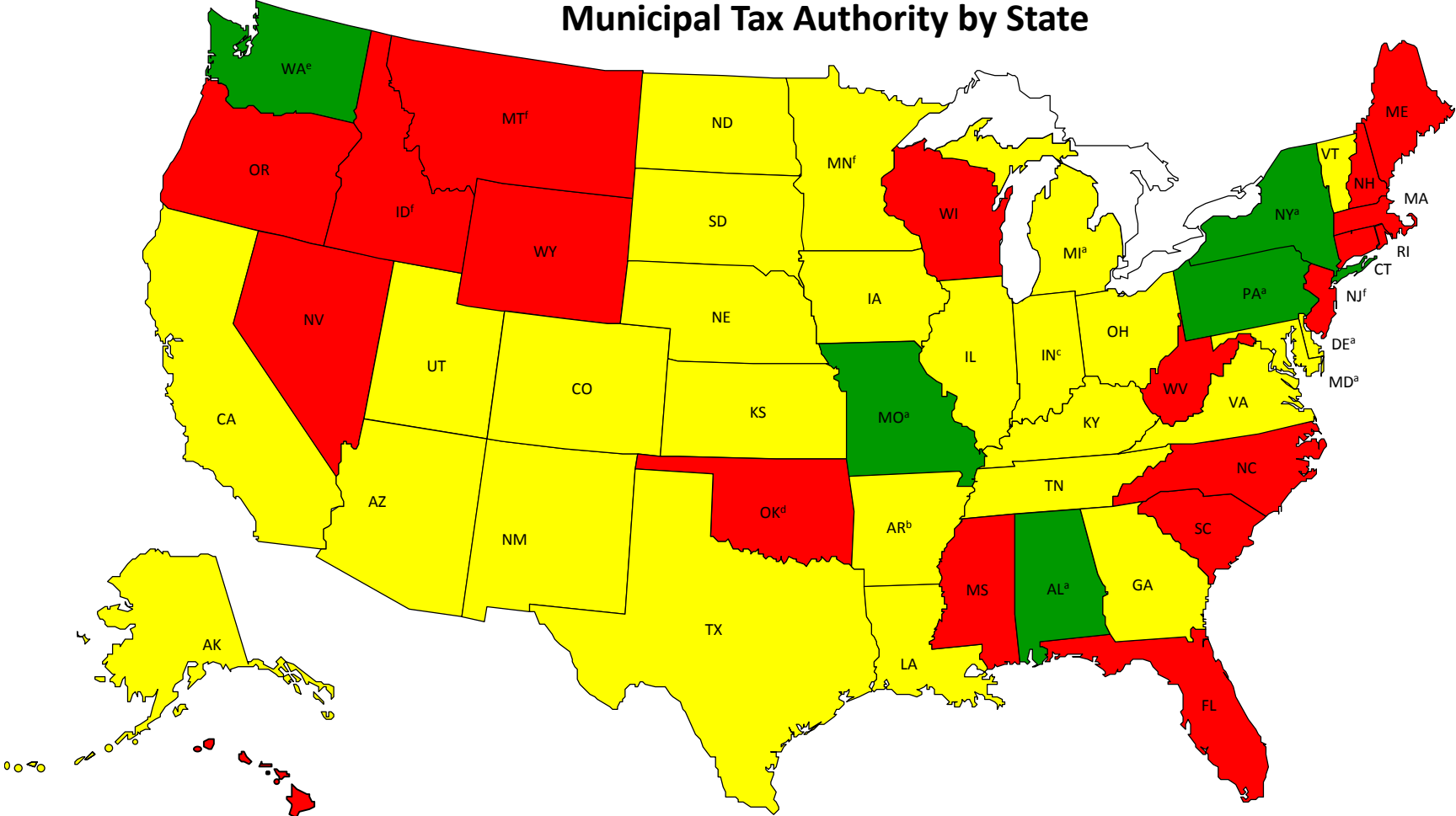


Source: Michael A. Pagano and Christiana McFarland, *City Fiscal Conditions in 2013* (Washington, DC: National League of Cities, 2013)

Year-to-Year Change in Municipal General Fund Tax Receipts (Constant Dollars)



Municipal Tax Authority by State



a Income or sales tax for selected cities. **b** Cities can levy a local income tax, but no locality currently does so. **c** A local income tax under certain circumstances. **d** Sales tax only; cities can levy a property tax for debt-retirement purposes only. **e** Cities can impose the equivalent of a business income tax. **f** Sales taxes for selected cities and/or restricted use only.

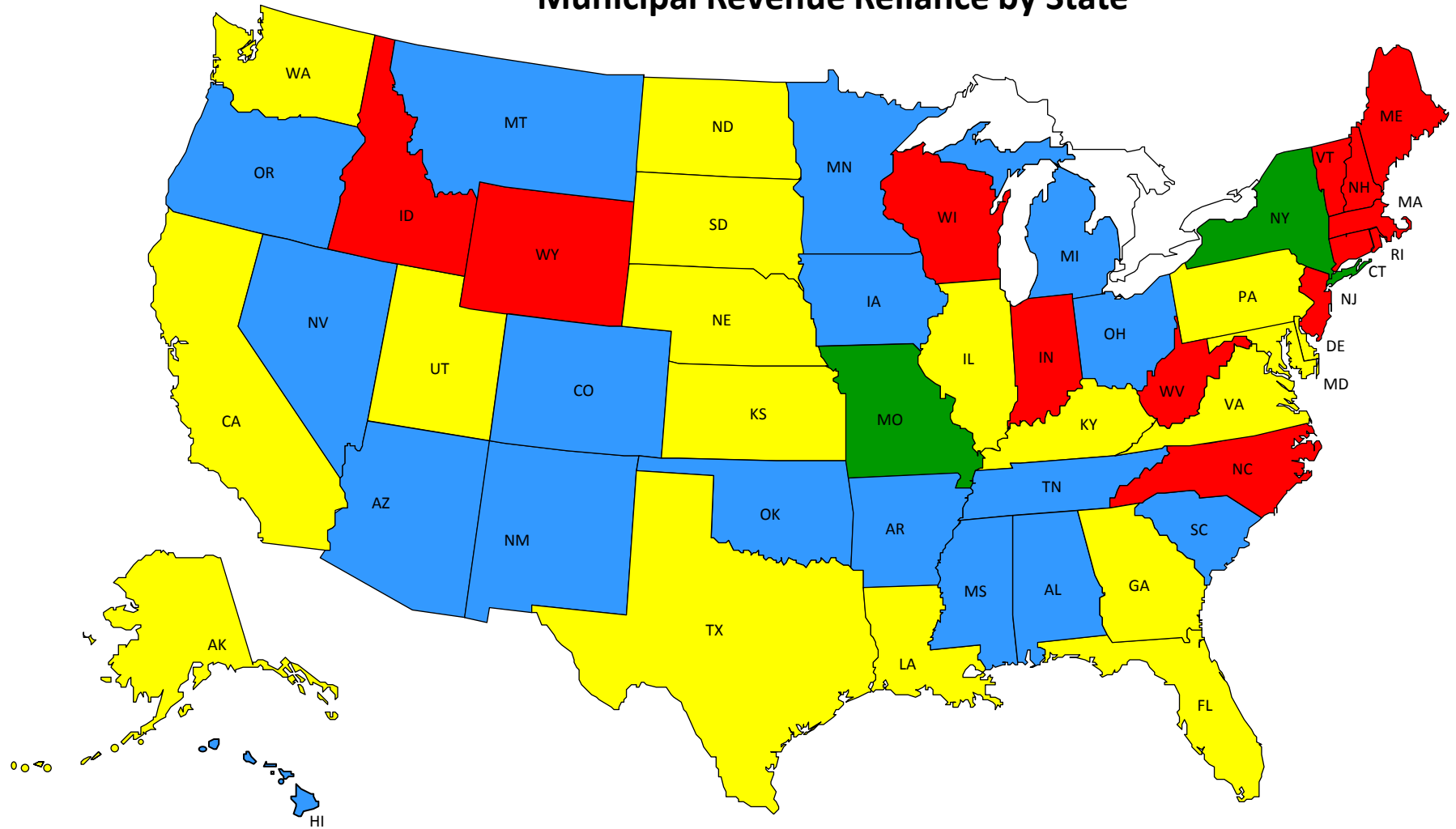
Property + sales + income

Property + sales OR Income

Property or sales only

Source: Michael A. Pagano and Christopher Hoene, "States and the Fiscal Policy Space of Cities" in Michael Bell, David Brunori, and Joan Youngman, eds. *The Property Tax and Local Autonomy* (Cambridge, MA: Lincoln Institute of Land Policy, 2010), pp. 243-284.

Municipal Revenue Reliance by State



Three tax sources

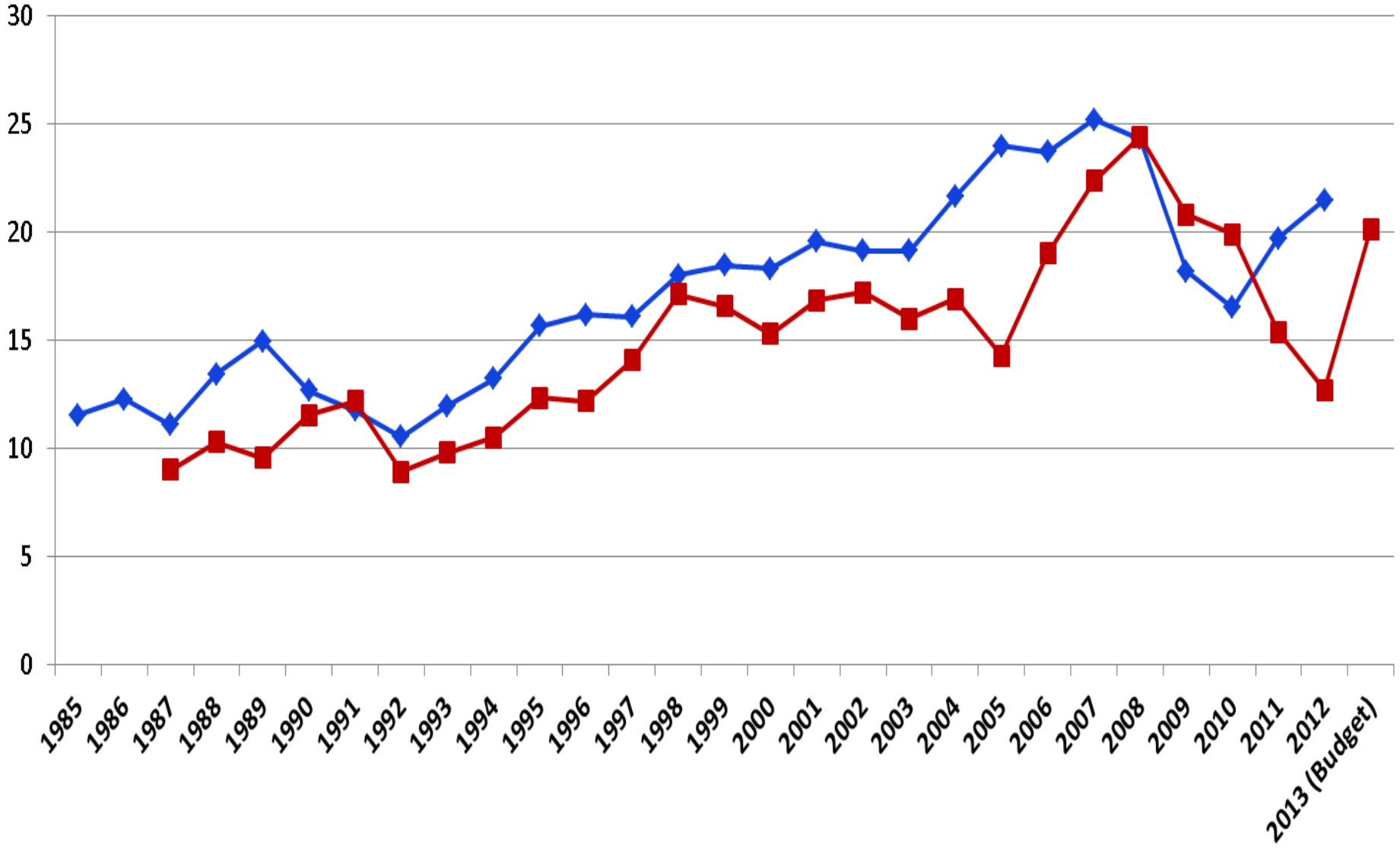
Two tax sources

One source + low 2nd source

One tax source

Ending Balances (as percentage of expenditures) (Municipalities' General Funds)

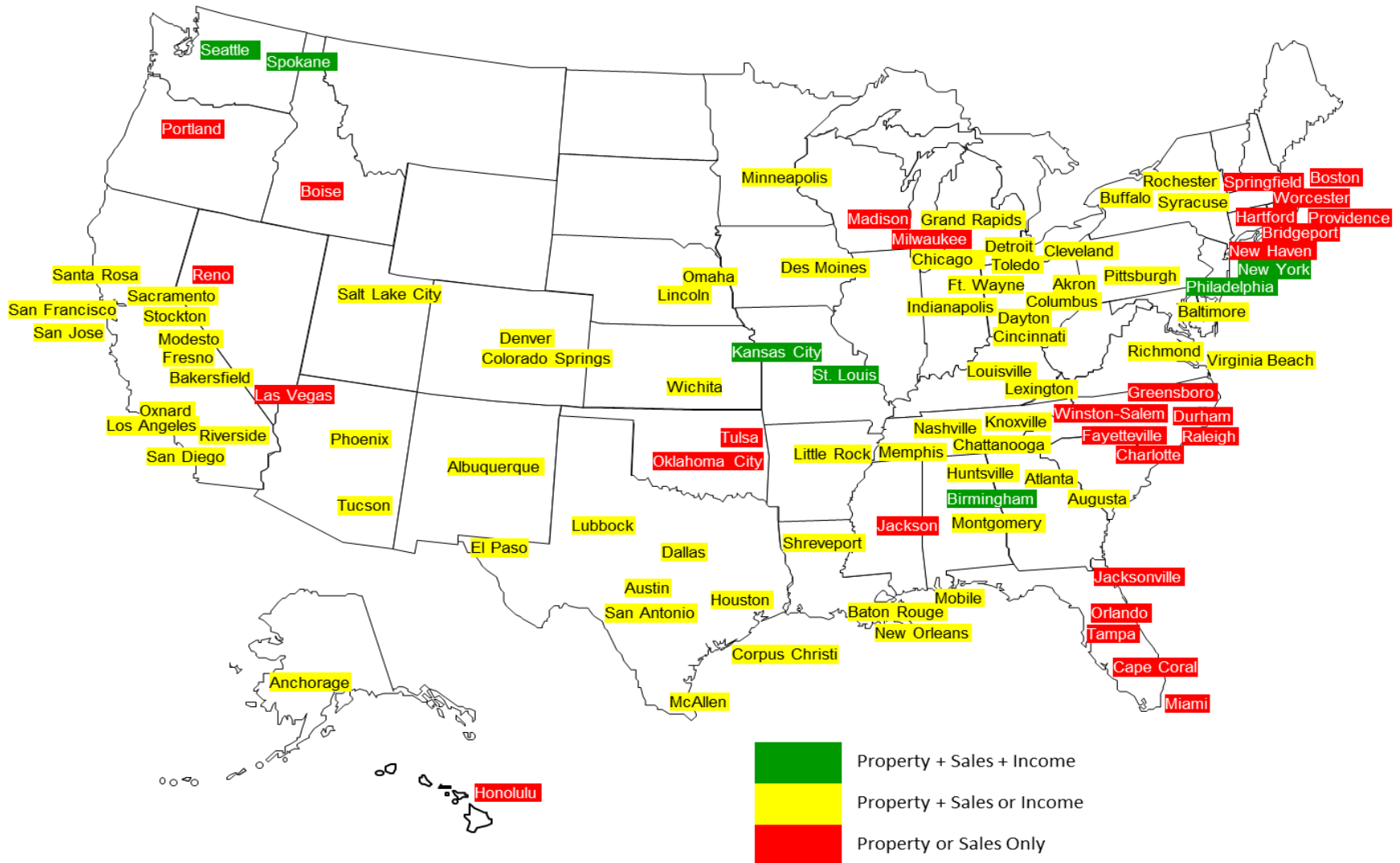
◆ Actual Ending Balance ■ Budgeted Ending Balance



Local Autonomy Defined: Fiscal Policy Space of Cities

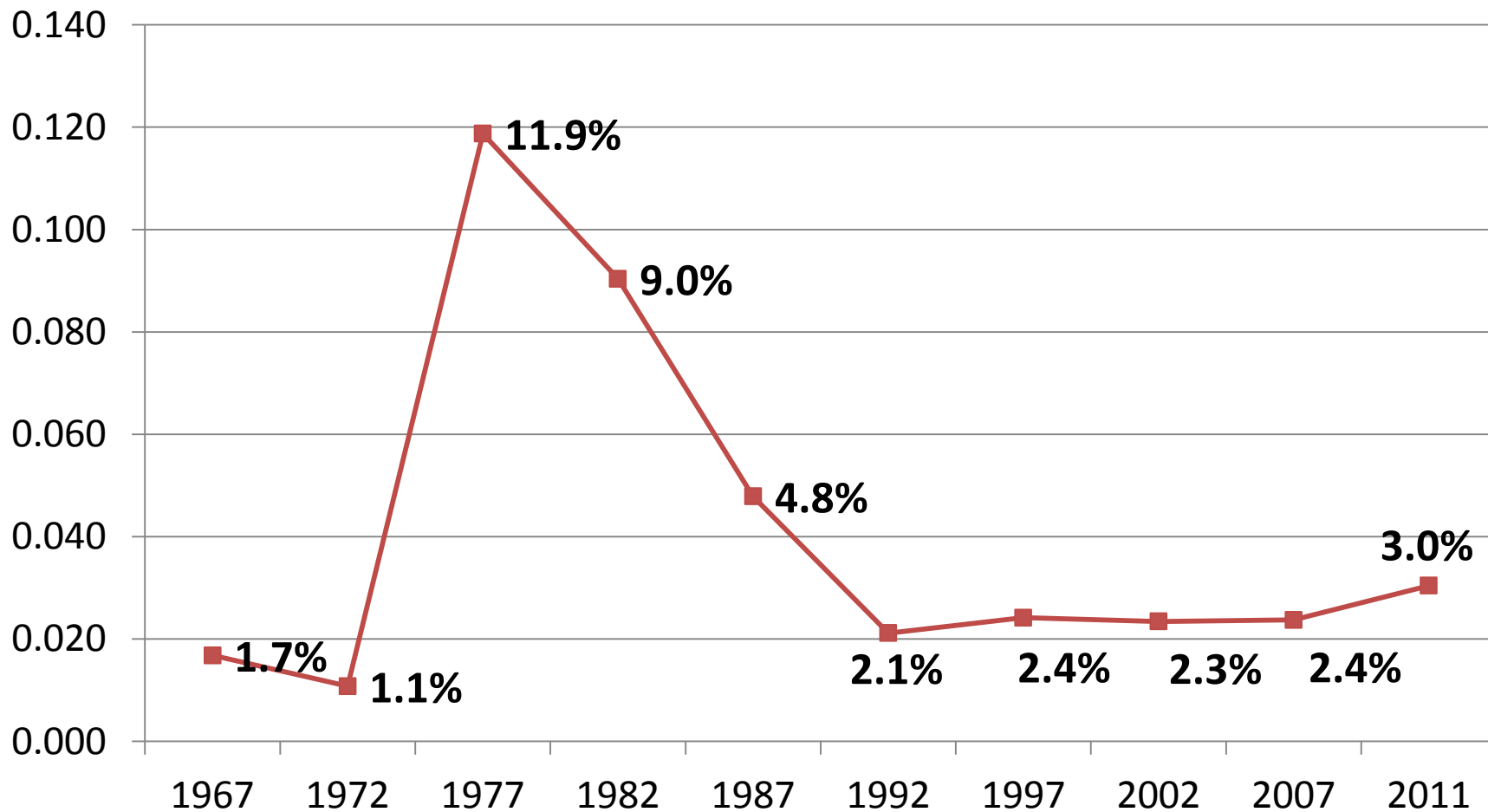
- FPS= a confined decision space within which city officials are permitted to take action, and shaped by the following attributes:
 - 1) **Intergovernmental System** (tax authority, TELs, revenue reliance, state aid)
 - 2) **Economic base**
 - 3) **Local legal context**
 - 4) **Citizen/consumer demand**
 - 5) **Political culture**

Fiscal Policy Space of Cities

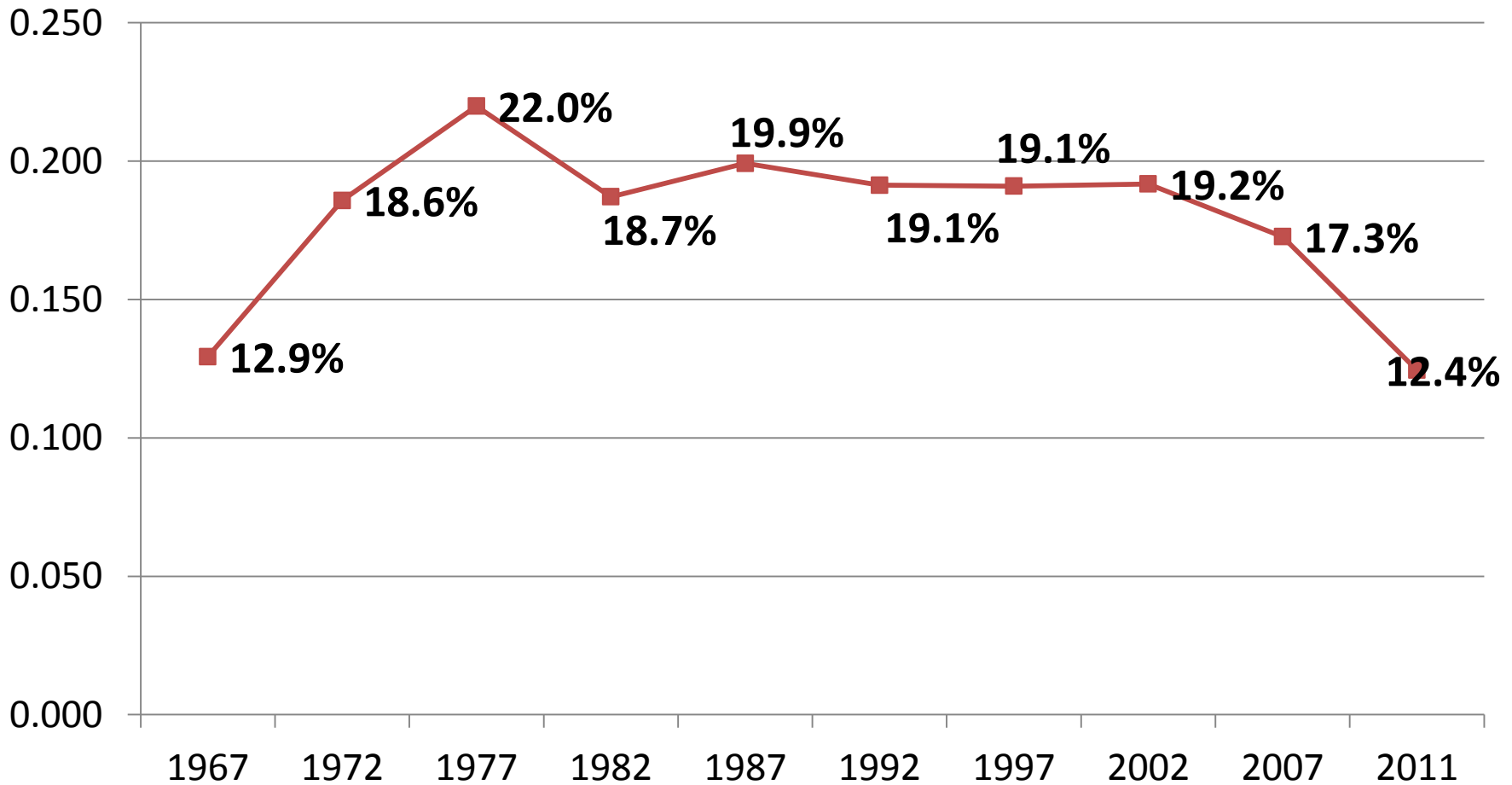


The financial support of the John D. and Catherine T. MacArthur Foundation is gratefully appreciated.

Federal Aid as Percent of Municipal General Revenue

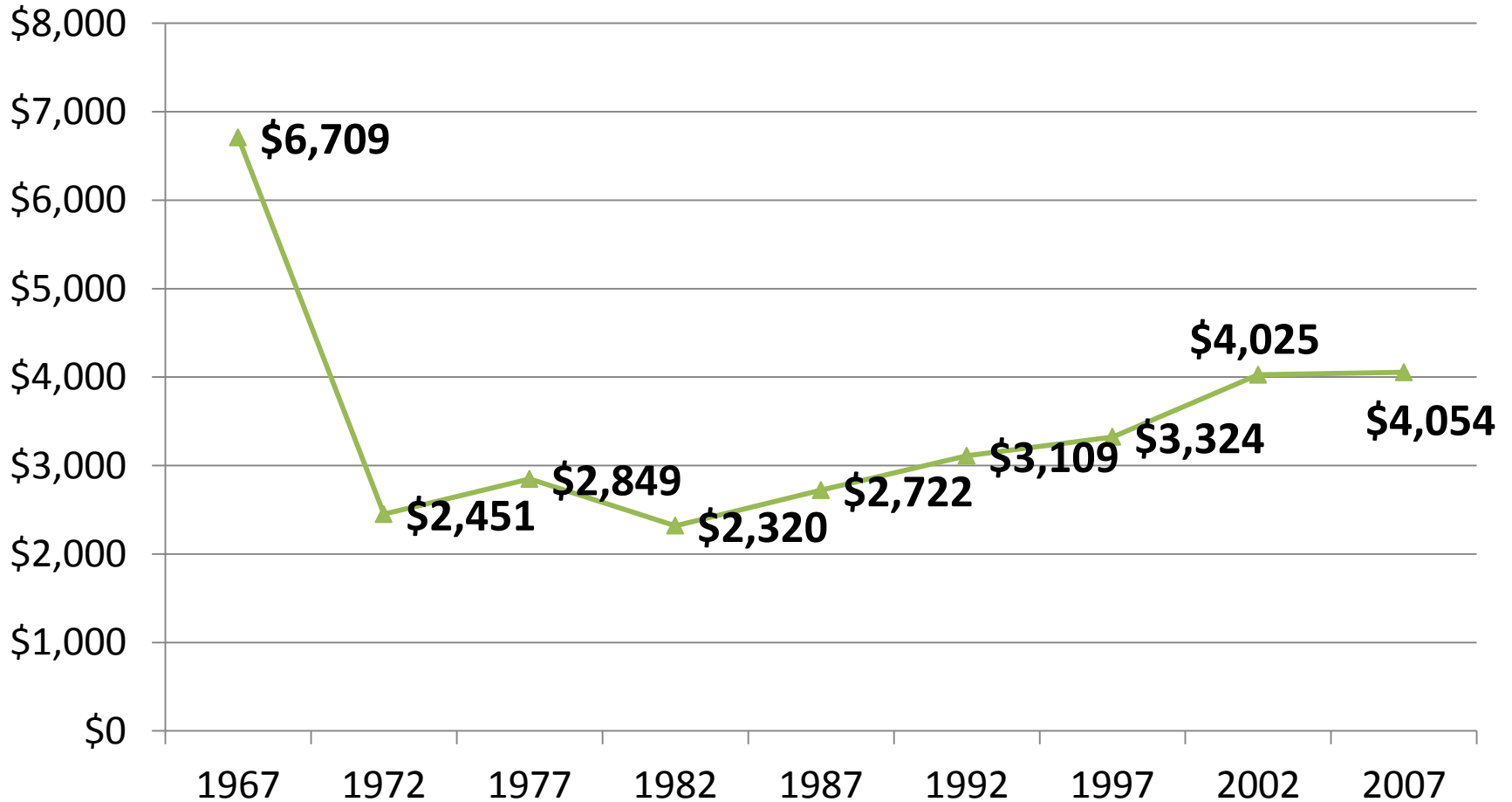


State Aid as a Percentage of Municipal General Revenue



Average State Aid Per Capita

(Constant 2011 dollars)



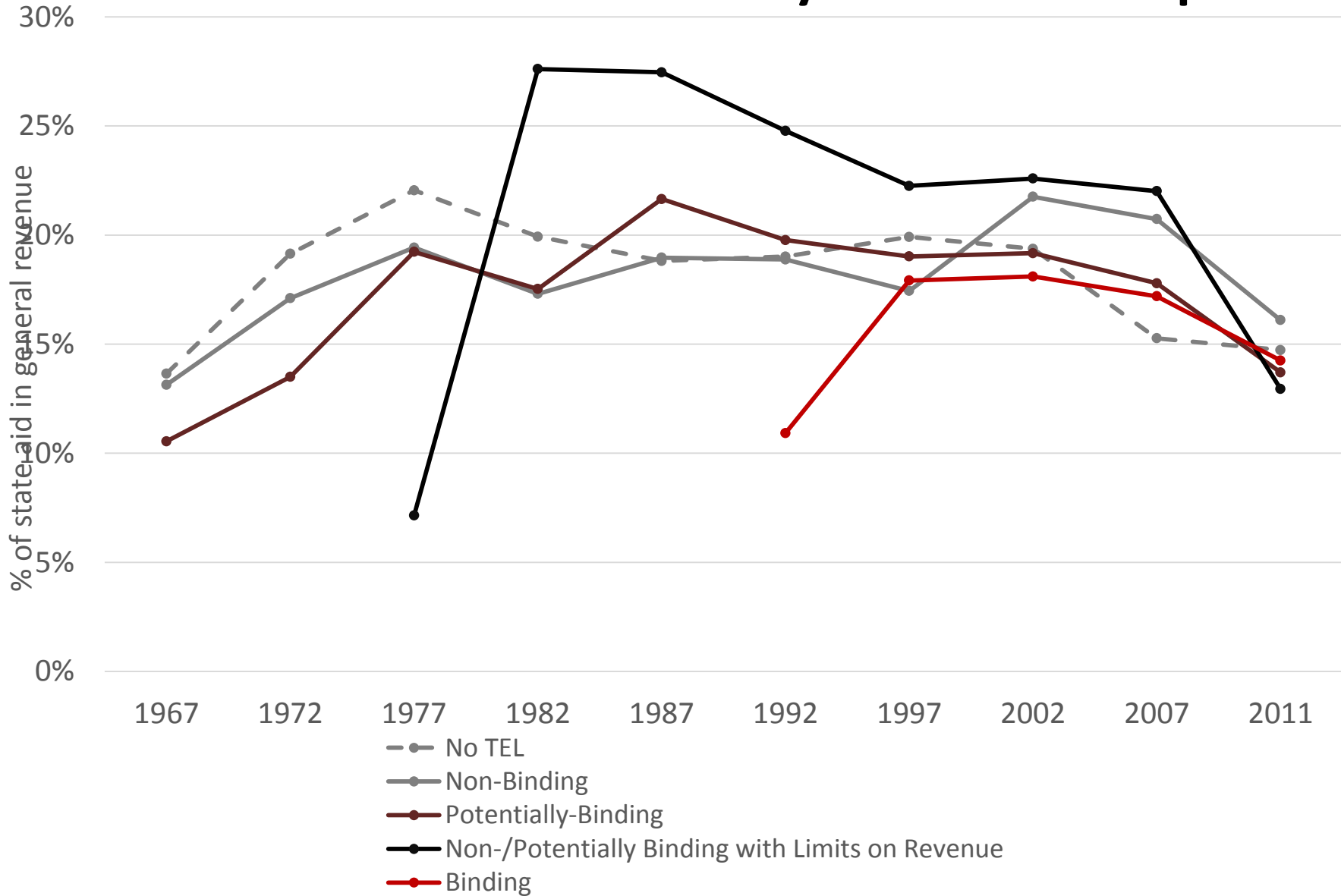
	Most stringent		TEL Scale		Least stringent
1 source	Straitjacket!		<--Anchorage*		Atlanta
				Miami	Bridgeport
				Cape Coral	Hartford
				Orlando	New Haven
				Boise	Honolulu*
				Des Moines	Chattanooga
				Wichita	
				Springfield	
				Boston	
				Worcester	
				Jackson	
				Las Vegas	
				Buffalo	
				Rochester	
				Syracuse	
				Providence*	
				Madison	
		Milwaukee!			
2 sources	Phoenix	Fresno*	Little Rock	Baltimore*	<--Nashville
	<--Tucson	Bakersfield*	<--Jacksonville	Durham	Knoxville
	<--Denver	Los Angeles*	Tampa	Winston-Salem	Memphis
	<--Colorado Springs	Riverside*	Indianapolis!	Greensboro!	Richmond
		Sacramento	Louisville*	Charlotte	<--Virginia Beach*
		San Diego*	Baton Rouge	Raleigh	
		San Francisco*	New Orleans*		
		Stockton*	Minneapolis		
		<--San Jose	Cleveland!		
		Santa Rosa	Columbus		
		Modesto	<--Cincinnati		
		Oxnard	Toledo!		
		<--Chicago	Dayton!		
		San Antonio	<--Akron!		
		Dallas	Oklahoma City		
		El Paso	<--Tulsa		
		<--Houston	Pittsburgh		
		Mcallen	Salt Lake		
		Austin	Seattle*		
		Grand Rapids!			
	Detroit!				
	Omaha				
	Albuquerque				
3 sources			<--Kansas City	Birmingham	Free Zone!
			St Louis		
			New York*		
			Philadelphia		

<-- Cities with locally-imposed binding TELs

! Cities with per capita income growth from 2000 to 2010 below (mean - 1SD)

* Cities with per capita income growth from 2000 to 2010 above (mean + 1SD)

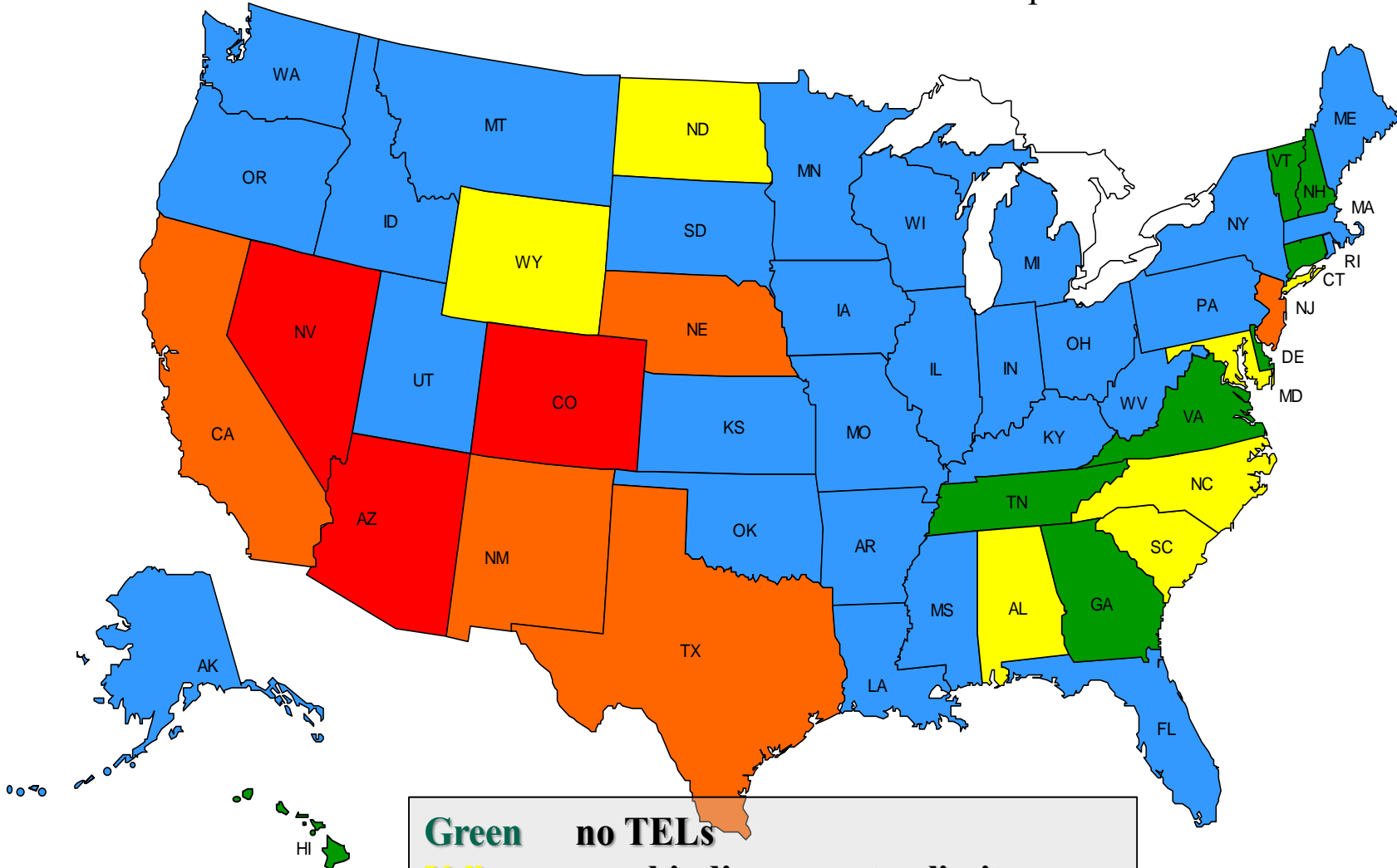
State Aid as Percent of Municipal General Revenue by TEL Group



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

Restrictiveness of TELs on Municipalities



Green	no TELs
Yellow	non-binding prop tax limits
Blue	binding property tax limits
Orange	expenditure limits
Red	Rev/Exp limit and Prop Tax limit

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