Where Does Local Government Revenue Come From Now?

Online Appendix to the Rethinking Revenue Phase 1 Report

All data in this section is drawn from the Urban Institute's "State and Local Finance Data: Exploring the Census of Governments" tool. This tool is based on the Census of Governments State and Local Finance series, which comes from the U.S. Census Bureau.

First, it is important to understand that the answer to this question varies from state to state and between types of governments (cities, counties, schools, etc.). Let's examine local government "general" revenues. General revenue pays for general services like public safety and some public works. It excludes other services like utilities that have their own funding sources. It might also exclude revenues that are restricted for specific purposes. An example might be a gas tax that can only be used for roadwork. We are focusing on general revenue because that revenue is the most flexible for meeting the changing service demands that local governments face, and that revenue makes up a large portion, if not the majority, of almost all local government budgets. Exhibit 1 summarizes the results across all 50 states for cities, counties, and schools. We see that cities and counties are not radically different, though counties have a notably higher reliance on intergovernmental revenue and somewhat higher reliance on property taxes and lower reliance on sales taxes. Schools are much different, with a greater reliance on property taxes and intergovernmental revenue than either cities or counties.

Exhibit 1—Major Revenue Sources as Percent of Total General Revenue for Municipal Governments

	Percent of General Revenue		
Revenue Sources	Cities	Counties	Schools
Property Tax	24%	28%	37%
All Sales Taxes (general and excise)	14%	9%	1%
Intergovernmental	24%	34%	55%
Charges	21%	21%	4%
Income Tax	6%	1%	0%
All Other	11%	7%	3%

Exhibit 1 does not show the large variabilities that occur between states. To illustrate, Exhibit 2 focuses on cities and shows the states in which cities derive the largest and smallest shares of general revenue from the sources in Exhibit 1. We can see that for each revenue, there are states where the revenue is either nonexistent or of little importance, while in other states, that same revenue is critical to municipal budgets. Though not shown in Exhibit 2, there are large variations between states for counties and schools.

Exhibit 2—States Where Different Revenues are Most and Least Important for Municipalities, as a Percent of Total General Revenue

	Property Tax	**Sales Taxes**	**Intergovernmental**	**Charges**	**Income Tax**
Top 3	NJ – 53%	CT – 0%	WY – 58%	WV – 51%	OH – 43%

	NH – 53%	NH – 0%	CT – 41%	MI – 48%	KY – 30%
	ME – 50%	ME – 0%	VA – 40%	UT – 39%	PA – 26%
Bottom 3	WY – 4%	AL – 47%	WV – 6%	CT – 6%	39 States at 0%*
	OK – 5%	OK – 38%	UT – 7%	NJ – 8%	
	AK – 8%	CO – 38%	SD – 8%	NY – 9%	

*This refers to a local income tax. Some states collect income taxes and distribute a portion back to local governments, so this arrangement would be classified as "intergovernmental."

In Exhibit 3, if we look at larger states, we see that the results are less extreme than in Exhibit 2, but there are still notable differences. This makes the point that the variability shown in Exhibit 2 is not limited to small states.

Exhibit 3—Revenue Sources as a Percent of Municipal Budgets in Larger States

	Property Tax	Sales Taxes	Inter-governmental	Charges	Income Tax
California	20%	20%	13%	30%	0%
Texas	28%	24%	8%	29%	0%
Florida	24%	12%	17%	28%	0%
New York	24%	8%	36%	9%	16%
Pennsylvania	14%	7%	26%	18%	26%
Illinois	22%	18%	27%	20%	0%

We might ask how these trends have changed over time. If we look at the period from 2007 to 2017[1], we find that the circumstances of schools haven't changed much. They derive their revenues from many of the same places in 2017 as they did in 2007.[2] For cities and counties, the biggest change is a greater reliance on charges for services: for both, they are about 15% more reliant on charges compared to 2007. Both also decreased reliance on intergovernmental revenues. These revenues are about 7% to 8% less prevalent compared to 2007. Property and sales taxes are also somewhat more important for cities and counties: 8% greater reliance than in 2007.

[1] 2017 is the latest comprehensive data set available.

[2] Note that for the figures in this paragraph, we are not referring to percentage point changes but rather proportional differences. To illustrate, the 15% difference in charges for cities refers to charges going from 18% to 21% of total general revenue from 2007 to 2017—a 15% increase.