

CITY MAYORS FINANCE



Vota a los alcaldes que posean la visión, la pasión y las habilidades necesarias para hacer de sus ciudades unos lugares sorprendentes

Recommended sources for additional reading

Ester R. Fuchs, *Mayors and Money Fiscal Policy in New York and Chicago* (University of Chicago, 1992)

Management Policies in Local Government Finance, International City/County Management Association.

Alternative Revenue Sources and Structures for Baltimore City
<http://www.beefballimore.org/revenue.html>

PILOTS give Local Government Revenues a Lift
http://www.afscme.org/wrkplace/cbr202_1.htm

Licensing Power and Local Sources of Municipal Revenue
<http://www.lib.niu.edu/ipa/im950813.html>

<http://www.leg.state.mn.us/docs/2003/mandated/030324.pdf>

Local Government Innovation Issues and Trends in Privatization and Managed Competition, Edited by Robin A. Johnson and Norman Walzer (Quorum Books 2000)

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Additional revenue sources are hard to find as US cities face increased responsibilities

By Mayraj Fahim, Local government adviser*

In the United States most local government revenue derives from three areas - local sources, state and federal aid. A breakdown of the components provides a clearer picture of local government revenue sources. It should be kept in mind, however, that revenue sources that have been tapped, and their adequacy in meeting local needs, are two different things.

In fact, for decades local units have had inadequate revenues to meet their needs, which has also led to prioritizing that has left some needs short-changed, such as infrastructure financing. Furthermore, financial inadequacy has also driven authorities to privatize and arrange for intergovernmental service agreements.

Sources of revenue

Some revenue streams, such as income tax, are common to all three governmental levels - but their proportion varies as a taxed source. The latest figures can be obtained from the US Census website (<http://www.census.gov/govs/www/cog2002.html>).

Local governments

Most local government authorities rely heavily on intergovernmental transfers (more so for smaller units than larger ones), property taxes, charges (that usually cover the cost of services provided for the charges) and miscellaneous income used at the local level in all states. Because of its immobility, real property is the major tax base. However, tax protests have been very effective in putting limits on property taxes. Other revenue sources, such as income and sales taxes, are not evenly available because states generally prefer to keep this revenue stream for themselves.

In general, local government responsibilities have increased but their own revenue sources have not kept pace. For this reason intergovernmental transfers have filled the void. These revenues, however, generally appear to have peaked by the 1980s, leading to local government struggle to locate other revenue sources. Revenue patterns vary by local government type, diversity of purpose, delegated authority and outside financing.

Counties and municipalities are general purpose units (as opposed to special districts that are limited to specific purposes and revenue sources related to them) that have the broadest range of revenue sources. They rely for the most part on property taxes and charges, intergovernmental transfers, sales and income tax. Townships, a general purpose category of small government units used in 20 states, rely more on property taxes than counties or municipalities, except in the states of the New England region where they are indistinguishable from municipalities.

School districts are the primary recipients of intergovernmental transfers. They also use property taxes and to a lesser extent, charges. Special districts tend to rely on three sources: charges, property taxes and intergovernmental transfers. The character of the special districts



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determines their sources. They charge for services. When desired, by federal or state governments, they also are funded by transfers. Others are also funded by property taxes, including school districts.

As local governments are so heavily dependent on intergovernmental transfers, especially from state governments, any reduction in the amount of such transfers can result in serious consequences for local government revenue. Despite this fact, the trend is for declining state support and receding federal aid.

This trend started with the Reagan era and has continued ever since. To illustrate the dimension, during the 10 years of the Reagan-Bush era, federal funding of urban programs was reduced by almost 70%. The degree to which state aid has substituted for the void created by the loss of federal support has varied. Some states barely increased support while others initially increased support and then reduced it because of concerns over balancing their own budgets. As a result, cities are expected to do more with less. This is the result of the New Federalism put forward in the Reagan era that has essentially reordered the relationship between the three main levels of government by turning back the tide set forth in 1933 by Roosevelt's New Deal.

Cities

The common trend for cities since the 1980s has been one of declining federal support - from the Reagan Administration period to the present day. This has caused them both to search for new sources of revenue and to increase reliance on existing sources of revenue. Property tax is a common staple. The various strategies undertaken by cities attempting to manage in the changed environment has been influenced by their historic practices as well as by the constraints under which they are forced to maneuver - most directly, those imposed by their own state governments (as local government is a creature established under state law). The state-imposed constraints vary. Hence, some cities (such as New York City) are more constrained by their state than others. Los Angeles and Chicago, for example, have greater freedom and/or support than New York City. One reason, perhaps, is that New York City has had two major financial debacles requiring state bailouts while the other two have not.

The size of a city also influences what revenue sources are used and in what proportion. The norm is that the larger the city, the more diverse its revenue streams.

For instance, in Minnesota, the state auditor's report found much difference between cities with populations below 2,500 and those above. (See source referenced in recommended reading). As the report noted: cities under 2,500 are much more dependent on intergovernmental revenues (40% versus 29%), with the state as the dominant support resource, than cities above that range. This can be attributed to the narrower revenue base of smaller cities versus larger ones. The larger cities used other revenue streams in Minnesota such as tax increments from tax incremental financing districts, franchise lodging and local sales taxes. In Minnesota, it was found that large cities also used tax incremental financing more than smaller cities.

Another variation is to be found in Texas, the second most populous state in the US after California. Cities in Texas differ from the norm in three ways: they demonstrate less reliance on property taxes (because of public opposition) and more reliance on sales taxes and user fees.

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Local revenue sources are failing increasingly to meet certain local needs

The fiscal challenges of American cities are basically structural. This is because local sources alone are insufficient and local government is further being burdened by unfounded mandates - that is, orders imposed by higher levels of government not matched with financial support to implement such orders. In an age where health and pension costs are rising, the imbalance is being felt most acutely. Slow economic growth also means that revenue sources previously relied upon are no longer as productive as they once were. This has led local governments to seek out revenue sources not tapped before, such as nonprofits, and by raising rates on items impacting on select constituents (which dilutes potential for concerted resistance) such as cigarettes and Indian casinos.

Looking to alternative service providers to reduce burdens

Intergovernmental service agreements
Such arrangements are not of recent vintage, though the increasing reliance trend is rising. In fact, as revealed by a 1973 survey on behalf of the US Advisory Commission on Intergovernmental Relations, it was found that of 2,375 municipalities some 62 per cent had participated in such arrangements, either formally or informally. At the time 43% of all cities had been involved in the same.

Privatization of services

In an environment of constraint, there has been more interest in locating ways to control costs while maintaining high quality public services via the route of privatizing public services. The resulting efforts have produced mixed results.

Cities have always contracted for some services. However, cities are now increasing the scope of services to be privatized. There is no uniform pattern because cities have tended to prefer tailored solutions, even though some have looked to others for guidance. Thus, Philadelphia, Atlanta and Chicago all successfully undertook the contracting of services, in different ways, under Mayors Ed Rendell, Bill Campbell and Richard Daley. And under Mayor Stephen Goldsmith, Indianapolis set a leading example where unionized labor was permitted to compete for contracts. Those American cities that have looked to the delivery mechanism of alternative services have illustrated that diversity is the norm.

Conclusion

Revenue sources for cities are in some cases common basic sources, such as property taxes. In others, sources are more heavily used in some than in others. In sum, US cities illustrate that they are communities maintaining individuality depending on local conditions and dynamics.

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