

The Dynamic between Municipal Revenue Sources and the State-Local Relationship in New England

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***Financing Municipalities in New England:
Revisiting the State-Local Relationship***
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The argument

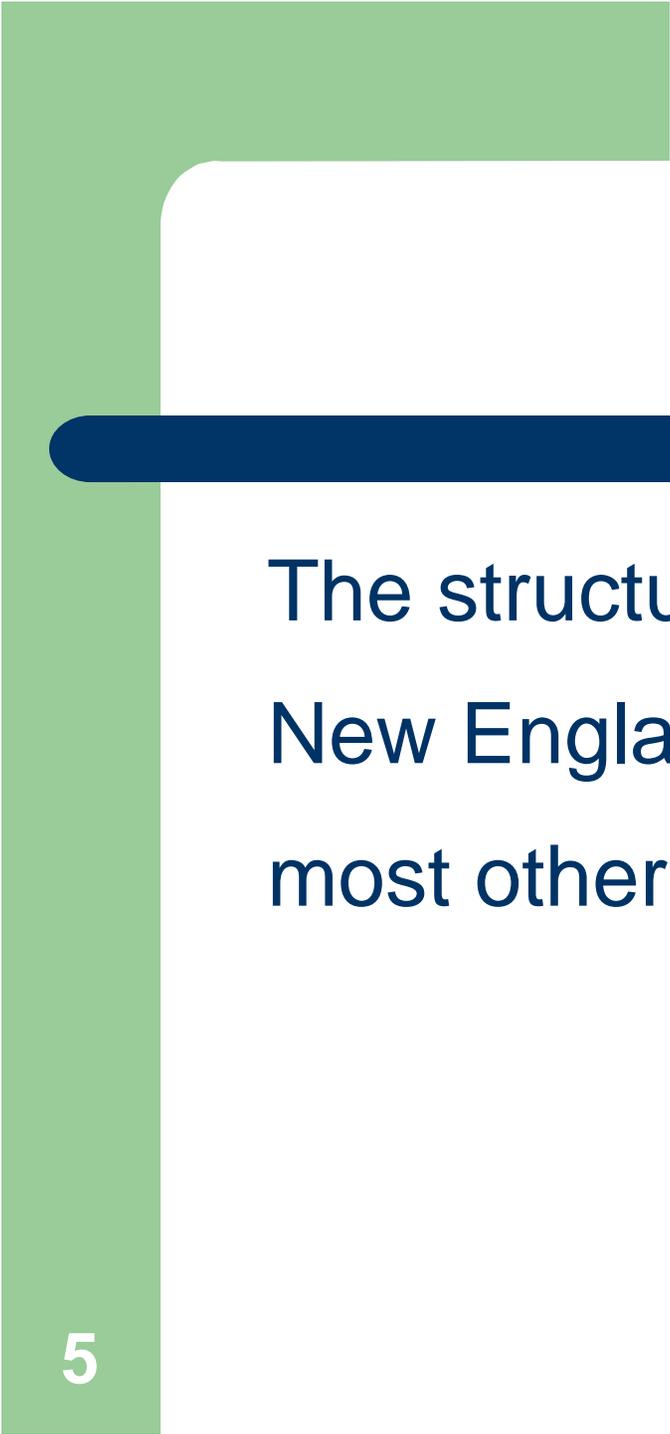
- Times are tough for municipal government
- New England local government is different
- Local government is linked to states, by grants in aid in particular
- Need to look at the revenue mix
- Times are going to get much tougher for state governments as population ages, so
- Times will get even tougher for municipalities

Some questions along the way:

- What are local government revenue sources?
- How have they changed in recent years?
- How do New England states compare to each other and to the nation?
- What does the future look like for state and local government revenues?

State and local governments are linked in many ways

- States create local government and
 - Establish allowable structure and powers
 - Set and constrain local taxing powers
- State grants-in-aid a key revenue source
- Share taxpayers and their capacity to pay
- Share economic trends and cycles



The structure of local government in New England states is different from most other states.

Compared to states in rest of nation, local government in New England

- Relies heavily on TOWNS for general services
- Does not use COUNTIES much or at all
- Relies less on INCORPORATED MUNICIPALITIES
- Relies less on SPECIAL-PURPOSE governments (like library districts)
- Relies more on TOWN-DEPENDENT and less on independent SCHOOL DISTRICTS

Table 1: Share of Total Local Government General Revenue by Type of Local Government from 2002 Census (percent)

	US	CT	ME	MA	NH	RI	VT
County	25.2	0.0	3.1	0.9	8.8	0.0	0.3
Municipal	28.0	37.3	26.4	44.2	27.9	50.3	9.6
Township	3.3	54.4	39.6	36.5	19.3	40.6	19.8
Special District	9.1	5.1	6.9	11.6	2.5	4.7	4.6
School District	34.4	3.2	24.0	6.8	41.5	4.4	65.7

Census Bureau data on local government

For each year (to 2005) in each state have:

- State and Local sectors combined
- Local government sector combined

Every fifth year (..., 1997, 2002) have:

- Information for each individual government
- Grouped by five types of local government
- Municipal = Town + Incorporated Municipality

**Table 7: Municipal Percent Share of Total Local Government Sector
in 2002**

	US	CT	ME	MA	NH	RI	VT
Intergovernmental Revenue from State	19.5	96.2	55.6	76.5	29.6	94.9	6.5
Property Tax Revenue	28.6	98.3	74.7	98.0	52.4	98.6	58.0
Direct General Expenditure	31.7	93.2	62.6	86.1	48.1	91.0	29.8
Elementary & Secondary Education Expenditure	10.8	94.4	50.7	85.5	22.5	92.4	0.0

Comparing government revenue per capita to U.S. average

New England states, with the exception of New Hampshire:

- have larger state and local government sectors
- rely relatively more on state, as opposed to local, government

Table B: Government General Revenue per capita by Level of Government and year in \$2005

(Taken from first row of tables 2-5, 8 and 10)

	US	CT	ME	MA	NH	RI	VT
State & Local 2005	6,816	7,890	7,475	7,636	5,903	7,589	7,752
State & Local 1995	5,628	6,827	5,505	6,377	5,027	5,957	5,961
Local 2005	3,914	3,654	3,016	3,667	3,201	3,130	2,959
Local 1995	3,255	3,046	2,436	2,901	2,521	2,416	2,443
Municipal 2002	1,206	3,169	1,982	2,974	1,394	2,574	788
Municipal 1997	1,108	2,923	1,814	2,524	1,213	2,252	750

**Table 6: Income, Federal Aid, and Population
for New England States in 2005**

State	Personal Income per capita (as percent of Nation)	Federal Aid to State and Local Government per capita (as percent of Nation)	Population (millions)
Connecticut	137	86	3.5
Maine	89	136	1.3
Massachusetts	126	97	6.4
New Hampshire	110	84	1.3
Rhode Island	102	133	1.1
Vermont	95	143	0.6

Revenue mix for *State and Local* government sector in 2005 (Table 2)

Compared to rest of nation, New England states:

- All rely heavily on the *property tax*, with New Hampshire highest in the nation
- All rely less on *sales taxes* (NH has none)
- MA and CT rely heavily and NH lightly on *income taxes*
- All rely less heavily on *charges and fees*

Table 2: Percent share of **State and Local** Government
Total General Revenue by Source in 2005

	US	CT	ME	MA	NH	RI	VT
Federal Aid	21.7	16.1	26.9	18.7	21.1	25.9	27.2
Property Taxes	16.6	25.9	21.8	21.0	34.4	22.3	21.9
General Sales Taxes	13.0	11.8	9.5	7.9		10.4	6.5
Selective Sales Taxes	6.0	6.7	4.3	4.2	9.1	6.7	9.8
Individual Income Taxes	11.9	18.2	13.2	19.7	0.9	12.2	10.4
Corporate Income Taxes	2.1	2.1	1.4	2.7	6.2	1.4	1.4
Other Taxes	4.6	3.6	2.7	3.0	5.4	2.2	3.4
Charges and Fees	15.3	8.5	10.5	11.0	13.1	9.1	11.2
Misc. General Revenue	8.8	7.0	9.7	11.7	9.9	9.8	8.2

Revenue mix for *Local-only* government sector in 2005 (Table 3)

Compared to nation, & with exception of VT, NE states:

- MA relies more and others less on *state aid*
- Rely much more on *local property tax*
- Rely less on *charges and miscellaneous* revenue sources

Vermont stands out with:

- Far below average reliance on *property tax*
- Far above average reliance on *state aid*

Table 3: Percent share of **Local** Government
Total General Revenue by Source in 2005

	US	CT	ME	MA	NH	RI	VT
Federal Aid	4.5	3.5	3.2	5.5	3.2	4.2	2.9
State Aid	34.4	29.6	28.4	35.8	30.2	29.7	67.2
Property Taxes	27.9	55.9	53.0	43.8	54.0	54.1	16.9
General Sales Taxes	4.3						0.2
Selective Sales Taxes	1.9			0.6		0.3	0.2
Individual Income Taxes	1.8						
Corporate Income Taxes	0.4						
Other Taxes	2.3	1.2	1.0	1.1	0.9	1.3	0.6
Charges and Fees	16.0	6.8	10.7	9.9	8.6	7.6	7.5
Misc. General Revenue	6.5	3.0	3.6	3.2	3.1	2.9	4.3

Revenue mix for *Municipal* government sector in 2002 (from Table 8)

Compared to rest of nation, New England states:

- Have more than twice reliance on the *property tax*
- Have above average reliance on state aid
 - except VT, where independent school districts get the aid
- Have no local-option *general sales taxes*
- Make little use of *selective sales taxes*
- Have no local-option *income taxes*
- All rely less heavily on *charges and fees*

Table 8: Percent share of **Municipal** Government
Total General Revenue by Source in 2005

	US	CT	ME	MA	NH	RI	VT
Federal Aid	4.9	1.1	0.5	2.4	3.9	2.1	4.1
State Aid	21.6	30.2	24.4	34.9	22.2	30.8	12.2
Property Taxes	24.1	58.4	58.8	48.7	53.4	56.9	56.1
General Sales Taxes	6.7						
Selective Sales Taxes	4.4	0.0	0.2	0.8		0.2	0.7
Individual Income Taxes	4.0						
Corporate Income Taxes	0.9						
Motor Vehicle License	0.2		1.1				
Other Taxes	3.6	0.9	0.8	0.9	2.0	1.1	1.3
Charges and Fees	17.4	5.7	9.0	9.2	12.1	5.5	17.4
Misc. General Revenue	6.5	3.0	3.6	3.2	3.1	2.9	4.3

Cyclical links between property taxes and state aid: the “offset” hypothesis

Starting in 2002 :

- an unusually large decline in state tax revenues;
- followed in many states by restrictions in state aid;
- some evidence that local governments compensated with higher property taxes;
- one study found that property taxes were increased by 25 cents for each one dollar cut in aid.

**Table 11: Local Government Property Taxes and State Aid
Percent change in real per capita amounts fiscal 2002 to 2004**

State	Property Taxes	Aid from State
Connecticut	6.8	4.9
Maine	3.5	0.9
Massachusetts	7.3	-6.9
New Hampshire	13.5	0.2
Rhode Island	13.4	13.3
Vermont	9.6	4.5

Source: Dye and Reschovsky (2007).

Table 12: **School District*** Property Taxes and State Aid
Percent change in real per capita amounts fiscal **2002 to 2004**

State	Property Taxes	Aid from State
Connecticut	14.9	-4.7
Maine	3.5	-4.4
Massachusetts	3.8	-3.7
New Hampshire	22.4	-4.2
Rhode Island	6.7	3.0
Vermont	18.2	-1.3

*Includes municipal-dependent school districts.

Property Tax Limitations

- Massachusetts has Proposition 2½ since 1980
 - Max. 2.5 of property value and 2.5 growth cap
- Rhode Island: 5.5 growth cap since 1985
- Maine: 2.75 growth cap since 2005
- CT, NH, and VT not capped

Aging population threatens state and local government budgets

- State share of Medicaid
- Unfunded pension liabilities
- Government retiree health costs
- Age patterns of income and spending affect income and sale taxes
- Indirect effect on municipalities via reduced state aid?

Table 15 (& 16):
Percentage share of population Age 65 and over

State	2000 Census	2030 Projections
United States	12.4	19.7
Connecticut	13.8	21.5
Maine	14.4	26.5
Massachusetts	13.5	20.9
New Hampshire	12.0	21.4
Rhode Island	14.5	21.4
Vermont	12.7	24.4

The argument (again)

- Times are tough for municipal government
- New England local government is different
- Local government is linked to states, by grants in aid in particular
- Need to look at the revenue mix
- Times are going to get much tougher for state governments as population ages, so
- Times will get even tougher for municipalities

What to do? What to do?

- Take the problem seriously
- Look at the level of state aid
- Look at the formulas for distributing state aid
- Look at using fees & non-property taxes more
 - Consider authorizing more local-option taxes
- Try to reduce costs of providing services
- Be prepared to make hard choices and reduce service levels