

Revenue Sources of Local Governments

Persisting Challenges and Emerging Opportunities

J. Edwin Benton



Revenue Sources of Local Governments

With limited fiscal capabilities, effective and efficient budgeting is a necessity for local governments in the United States. Acknowledging the critical (but often overlooked) part that raising enough revenue to fund desirable and mandatory programs plays in the budgetary process, this book offers an exclusive and comprehensive examination of the revenue side of the budget. It provides much-needed and wide-ranging context for examining and understanding local government revenues and local government revenue policy.

Author J. Edwin Benton presents a comprehensive overview of the revenue structure for local governments, in general, and for counties, municipalities, townships, special districts, and school districts, in particular. The bulk of this book meticulously examines the historical patterns and trends in revenue usage by local governments and provides explanations for variations among different units of government, states, and regions of the country. This book enhances our understanding of the most relevant research and aids in refining theories that seek to explain why local governments (or different types of local governments) rely more on certain kinds of revenues. It also offers immediately applicable real-world case studies on revenue-raising capabilities, practicalities, and experiences of local governments around the country. It will be of enormous interest to public budgeting practitioners, students, and scholars.

J. Edwin Benton is a Professor of Political Science and Public Administration at the University of South Florida. He has written extensively about county government, state-local relations, urban government and politics, intergovernmental fiscal behavior, and city-county consolidation. His articles have appeared in top-ranking journals, and he is the author or co-author of nearly 40 technical/grant reports/white papers for state and local governments, local government associations, and non-profit organizations.

“This book is a timely and important treatise on the oft-overlooked revenue side of local government ledgers. J. Edwin Benton’s discussion and analysis of the various resources available to local governments, as well as those proscribed to them, enhance our understanding of budgeting and provide insight into what might be considered by elected and appointed city officials. A must read.”

Michael A. Pagano, *Dean Emeritus & Professor Emeritus,
University of Illinois Chicago, USA*

“J. Edwin Benton’s study of local government revenue sources provides an extensive analysis of the complex world of taxation, fees, intergovernmental transfers, and borrowed funds. Through engaging description and meticulous evaluation of various revenue streams, this volume builds a solid foundation for scholars and students alike.”

Ann O’M. Bowman, *Professor and Hazel Davis
and Robert Kennedy Endowed Chair,
Texas A&M University, USA*

“This book helps the reader understand the fundamentals of the revenue streams of local governments while also providing guidance on opportunities for revenue improvements. It will be useful to practitioners and students in the classroom, and it is certain to be a classic in the field.”

Bruce D. McDonald, III, *Professor, North Carolina
State University, USA*

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J. Edwin Benton

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**Dedicated to
my wife
Teresa Thomas Benton**



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Foreword

Local governments are the engine of American government. They provide or coordinate many of the services we care about most in our daily lives: streets, public safety, education, drinking water, sewer service, electricity, and emergency medical services. Strong communities also need good buildings for schools, universities, libraries, hospitals, parks, and sports arenas. Without revenue, the services will stop, and the facilities will quickly close. It is frightening to imagine where things would be without well-funded local services—it is no exaggeration to say that without sufficient revenue for local governments, chaos would ensue.

Revenues need to be sufficient to fund services, but this is not enough. We expect the tax burden to be fair and predictable, and for public money to be well managed. We want a fiscal policy to contribute to economic growth and a better environment. Charges and fees need to be fair and productive. We want to build new public facilities that will enhance local wealth with a manageable plan of payments. In short, a prosperous, growing, equitable, and sustainable community relies on a good revenue policy.

Government policy does not happen overnight; it has deep roots that explain and constrain the present and the future. Protests about tax policy go back to the founding of the U.S. The notorious Boston Tea Party led to the American Revolution, and the Whiskey Rebellion during President George Washington's term imposed a practical constraint on government tax policy. In 1978, the Proposition 13 tax rebellion in California changed the property tax forever in that state and many others. Understanding the historical evolution of tax policy is critical to knowing what is and is not possible in the current day.

Professor J. Edwin Benton has assembled an impressive book that explains these issues to the reader. It details how local governments are funded, and the recurring issues facing communities. It uses long-term data so the reader can see the evolution of tax policy. It covers in depth the perennial issues of fairness, efficiency, and economic growth. Moreover, this book breaks this analysis down both by type of revenue source and by type of local government. Schools, for example, are funded much differently than cities, and one needs to understand

this to know why one tax is higher than another and the distribution of the tax burden on the community.

Benton also identifies some of the pressing challenges that we will face in the future: the explosion of information sharing and technology, pressing security threats beginning on September 11, 2001 that continue to test us, and the challenge of worldwide public health crises such as COVID-19. These present troubling issues for local governments that will assuredly require new sustainable revenue sources. Benton identifies several new or growing revenue sources that offer opportunities and will be on the agenda for local governments. Therefore, this book foreshadows future developments in local government.

Local government is particularly earthy, as the issues affect our property, neighborhoods, and businesses. A new stoplight at a nearby intersection or changes in a nearby park can be very emotional issues for some because they are so local and personal. As Benton points out, political and social issues are often more intense at the local level. These issues then affect the consideration of financing local services, making these issues much more interesting and multi-layered with a variety of considerations affecting the decision.

Practitioners, students, and researchers will all find this book to be very valuable. Those who are not experts in government finance will find that this book gets them up to speed quickly and foreshadows the issues to come. It will be a book you keep handy and come back to often.

John R. Bartle
Dean, College of Public Affairs and Community Service
Professor of Public Administration
University of Nebraska at Omaha

Preface

Local governments (i.e., counties, municipalities, townships, special districts, and school districts) are without a doubt the bedrock of the American system of democratic government and governance. Some would even go so far as to say that it is at the local level of government “where the rubber meets the road” and people at some point are most likely to connect with a local government of some kind, while people are also more likely to look to local government for the provision of the most basic kinds of services that affect a person’s quality of life (i.e., ranging from collecting and disposing of their garbage, providing health and welfare services, fire and police protection, and amenities like libraries, street lighting, sidewalks, parks and recreational facilities, and a host of utilities like potable water, sewage, electric power, and natural gas, in addition to offering K12 and post-high school educational opportunities. Moreover, public opinion polls over the years have consistently informed us that Americans are more likely to trust and respect their local government officials than the federal government or their state governments. Yet, all of this seems somewhat odd because the U.S. Constitution does not even mention—even once—local governments. But, within a very short period of time, these seemingly unmentioned, nameless, and perhaps forgotten or ignored governmental entities emerged as major players on the governmental scene. So fast-forward and welcome to the local government world of the third decade of the 21st century, where it often seems that these omnipresent fixtures take center stage even if they do not have all the answers or ready-made solutions to their citizens’ questions and concerns.

Given the central role that local governments frequently play in our lives and the faith, confidence, and hope we place in them, it is important for the public to both understand and appreciate the fiscal challenges, constraints from their constituents and higher levels of government, and social, economic, and political pitfalls associated with the awesome task of raising a sufficiently large amount of monetary resources while being ever mindful of how their decisions affect the local and state (and perhaps national and global) economy, as well as the poor, needy, overlooked, and sometimes shunned people in their jurisdictions. How will the revenue-raising options they chose to use to amass enough money

to run their governments affect the pocketbooks of their citizens? Then, there are always social and racial equity and justice issues to consider when raising huge sums of revenue for the public good. These are enormous concerns and considerations when formulating a budget designed to provide the long menu of staple services they do, as well as an ever-expanding wish list of more services and programs. It is as though the public has never seen a service that it does not like or want. Therefore, the purpose for writing this book is two-fold. First, it hopefully will serve to enlighten the governed (that is, local government citizens) as to the awesome and demanding job of crafting a balanced budget that will please most of the people in their county, municipality, township, or special or school district, and guide for local government practitioners who seek to learn from the past successes and failures when it comes to the raising of the necessary revenues to provide the most good for their community with the least amount of money. In addition to learning from history, it is hoped that local practitioners will dare to be bold with a willingness to try some of the innovative ideas mentioned in this book for raising sufficient money to run their county, city, township, special district or school district, as well as developing additional “out-of-the-box” strategies and notions along these lines.

Furthermore, it is my earnest hope that scholars reading this book will be encouraged to test some of the assumptions and implied hypotheses mentioned herein. If so, we could expand our knowledge base to test the accuracy of old theories about local government decision-making in the areas of government finances and budgeting, as well as formulate new or revised theories. Additionally, the data analysis presented here should provide local government officials with “food for thought” and a desire to learn more from the current tumultuous and uncertain economic and political environment within which they must function and conduct the public’s business at the local grassroots level of our system of government. Truly, local governments and local government officials, and the public they serve are living in and trying to navigate through “uncharted waters.” This is why a follow-up to this book is planned so as to analyze revenue data for 2021 and beyond when it becomes available in order to learn more about the impact that the COVID-19 pandemic and the unusually high rate of inflation have had and is likely to continue to have on the revenue-raising capabilities of local governments and the elected and appointed officials who lead them presently and in the uncertain future that lies ahead.

Acknowledgments

It goes without saying that there seem to be an infinite number of people to thank for what they have contributed, individually and collectively, to my ability and tenacity to write this book, as my journey began almost 12 years ago. If I fail to acknowledge anyone who deserves mentioning, I truly apologize in advance since it was an unintentional oversight for someone whose age is quietly catching up with him as he endeavors to complete an ambitious research agenda that he set for himself about ten years ago.

First, let me thank two of the most wonderful staff members of the School of Interdisciplinary Global Studies at the University of South Florida. Ms. Jamie Lane was always gracious with her time in printing off figures included in my book from the school's color printer which facilitated greatly my ability to analyze a tremendous amount of data. Moreover, she assisted me with things such as helping me assemble and upload my annual evaluation report (as she does for many of our faculty) which allowed me to spend precious time making my final edits on this book. Jamie was also instrumental in having a new computer installed in my campus office which permitted me to work from there when I needed to be in the office and was able to print draft copies of chapters for editing purposes. Like, Ms. Lane, Ms. Kimberly Jones was another person who was gracious with her time in answering questions and explaining some new tricks in how to navigate through and employ some relatively new technologically advanced desktop publishing tasks and routines. Her knowledge of these kinds of things was nothing short of amazing! In addition, she also assisted me in getting my new computer up and running so that I would be able to print material for my book for final proofing and editing.

Trusted, loyal, highly valued, and encouraging colleagues John Bartle (University of Nebraska-Omaha), Michael Pagano (University of Illinois, Chicago), John Kincaid (Lafayette College), Bruce McDonald (North Carolina State University), David Berman (Arizona State University), and Michael Scicitano (University of Florida) read several draft chapters of my manuscript and provided me with excellent and inspiring feedback and suggestions for improving the quality of the manuscript and its readability, as did several blind reviewers

used by the publisher (Routledge). John Bartle was especially helpful in that he and some of his colleagues assembled and made available to me and other scholars data contained in the 2017 *Compendium of Local Government Finances* which I vitally needed to complete this book with the most recent data on local government revenues. This source of official local government financial data is normally published every five years (in years ending in “2” and “7”). When I started this book, I had only 2012 data and was adamant that I would not publish the book without being able to include data from 2017. Unfortunately, the collection and publication of these data for general consumption were delayed for an extraordinarily long time because of the COVID-19 health pandemic. In the past, these data were available every 2–3 years after being collected. However, John and others had been successful in getting this data released, so I would be able to use it in the book. John was also gracious in agreeing to write the Foreword for the book. A special “thank you” goes out to Bruce McDonald for being willing to write an endorsement for the book, while I am very appreciative of my long-time friend and colleague Ann Bowman (Texas A&M University) for also writing an endorsement for the book. In addition to being the co-author (with Richard Kearney) of one of the leading state and local government textbooks, Ann has been an inspirational professional role model to me and other colleagues who conduct research in our particular area of study; it also helps that, like me, she is a former University of South Carolina Gamecock but now is an A&M Aggie! I am also greatly appreciative of the support and encouragement of my friend and greatly trusted colleague, Mike Scicitanno (former Editor-in-Chief of the *State and Local Government Review*), with whom I closely worked for ten years (2011–2021 as the Managing Editor of *SLGR*). Knowing about the all-encompassing time it took me to perform my duties for the journal, he always supported and encouraged me to keep plugging away at my writing. When I would get discouraged and overloaded, he would give me a pep talk and back to work I went! Thank you, Mike, for your support and cheering me on!

But, my greatest “thank you” goes to my devoted wife, Terry, and my daughter, Brittany. They have both made my life easier, more enjoyable, and less stressful by being just the great people they are—immediate family but, most importantly, friends. As those of you in academia know, life in the academy can be lonely and is filled with ups and downs and great expectations from many people (fellow faculty, administrators, students, media, and the public). Both my wife and daughter have truly been the “day in and day out” supporters, encouragers, confidants, and inspirers to lean on during times of discouragement, challenges, and burnout. I couldn’t ask for better people to be around me! When I suffered a mild stroke in April 2022, they assumed more of the responsibilities of the home and helped in myriad other ways to lighten the load for me so I could turn my complete attention to writing. Terry and Brittany, I could not do what I do and accomplish what I have if it weren’t for the two of you! Terry has read draft after draft and proofread the manuscript more times than I can

count and never said “no” when I knew she was tired of seeing another draft. She never complained but only offered encouragement and good advice. At this point, I would be remiss if I forget to mention the love and support of our two cats in Tampa—Cassie Mae and Tigger—and the four in Georgetown—Daisy, Allie, Baby Kitty, and Moma Kitty, for they are stress releasers as well as adorable and loveable kitties.

Aside from the encouragement and support given to me by those people mentioned above, it is important that I share perhaps the greatest incentive for me to complete the book. For the last few years, I have had an insatiable passion to push the book to ultimate publication as a result of what I saw happening around the country with not one but three recessions (dot com recession at the beginning of the 21st century, the Great Recession, and the COVID-induced recession). Then, what was happening in my hometown of Georgetown, South Carolina, was particularly gut-wrenching to watch. I have witnessed the struggle that Georgetown City officials had with making ends meet in an area where the effects of the Great Recession lingered for a longer period of time after economists claimed that the recession had ended in 2009 and are currently struggling to keep their heads above water with the wave of rapid inflation continuing to wreak havoc with not only the local economy but with efforts of the City to raise sufficient revenue to pay for the provision of even basic services. Therefore, I earnestly hope and pray that my book, in some small way, will offer a modicum of encouragement to local government officials everywhere that there is “light at the end of the tunnel” and you can make it to solid solvent ground if you continue your efforts and stay committed to your government and the people you serve. I say this with all humility because I have always regarded myself as a “blue collar scholar” and a “pracademic” who consciously and often leaves the mythical “Ivy Tower” to mix, interact, and work side by side with the folks who live, work, and serve “where the rubber meets the road.”

J. Edwin Benton
May 1, 2023



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1 Revenue Side of the Local Government Budget

The Money to Match Expenditures

On a cold, snowy Tuesday evening in early February 2023, the city manager, budget/finance director, 17 department heads, mayor, and six members of the city council of a suburban fringe city of approximately 22,000 persons in the Philadelphia metropolitan area attend the first of what will be a series of five budget workshops that will be held over the next three months. Their job is to begin the process of hammering out the details of the proposed city budget for the next fiscal year. Prior to this initial workshop, staff from the city's line departments and agencies and staff from the city's budget/finance office have had multiple meetings and traded countless communiques over the last several months in a very time-consuming effort to craft a proposed budget document that will be examined at this Tuesday evening meeting. In the weeks after the conclusion of the last workshop, the city's elected officials (i.e., the council and mayor) will continue the due diligent exercise of analyzing, discussing, and debating the merits and demerits of the content of the continually evolving proposed budget document in one or more public council meetings (with possible input from the general public, businesses, and citizen groups) before ultimately voting to adopt, amend, or even reject the final product. Their deadline to make a final decision on the adoption of a budget (as it still is in many local jurisdictions that operate on a July 1–June 30 fiscal year) is the last day of the month of June since this day marks the end of the current fiscal year.

Joining the public officials mentioned above at this first budget workshop are 12 citizens, representatives from five civic groups, three employee unions and three city regulatory boards, two vendors who have contracts with the city, and one local television and two newspaper reporters who have braved the cold weather to watch the night's proceedings from the audience gallery. Just two weeks before this meeting, the manager had unveiled to the mayor, members of city council, press, and public a proposed budget document after having received budget requests from department heads and revenue estimates from the city's budget/finance office.

At tonight's meeting, city department heads undoubtedly will be asked to explain and justify the need and the reasons behind their proposed departmental

2 *Revenue Side of the Local Government Budget*

operating costs, personnel requests, and capital expenditure projects. Moreover, the staff of the city's budget/finance office is likely to face questioning about the accuracy of their revenue projections. After tonight's meeting, several public hearings are also scheduled so that interested residents and civic and community groups can provide input to those persons who are charged with the responsibility of finalizing and adopting the budget. Others will also provide input and perspective in the weeks ahead. For instance, a representative from the state revenue department will provide estimates of the amount of state aid and shared revenue the city can expect to receive from the State of Pennsylvania, while the city's budget/finance office will inform the council, mayor, and manager as to the likelihood of receiving funding from pending federal grant applications, other federal government sources, and private sector donations or in-kind assistance. In addition, an economist from the Fels Institute of Government at the University of Pennsylvania will provide an assessment of the state of the national, state, and local economies and what these projections could mean for the revenue collections of the city. This representative will also provide an update on the municipal bond market; in the event, the city is contemplating borrowing money through the sale of bonds to balance this year's budget and finance capital improvements. All in all, a significant amount of time and effort is likely to be devoted to debate and consider the wisdom and necessity of proposed expenditures, to determine how much money should be allocated to carry out the myriad functions of the city and to provide a long menu of city services, and to determine the best way to raise the necessary revenue to accomplish these purposes.

Suffice it to say that other local governments in the area (i.e., large-, small-, and medium-sized cities, Bucks County, several townships, and a number of special service districts/authorities and school districts) will be going through a similar process in the upcoming months in an attempt to strike a balance between the service needs of their respective jurisdictions and the pocketbooks of local residents, businesses, and industries. Moreover, this process is repeated many times on an annual basis in the Nation's over 19,000 municipalities, 3,032 counties (or parishes in Louisiana and boroughs in Alaska), approximately 16,500 towns and townships, nearly 13,500 school districts, and roughly 35,000 special service districts, as local officials, in the words of political scientist Harold Lasswell (1936), endeavor to define and identify "who gets what, when, and how." This means that around 87,000 local governments across the United States annually prepare a budget document that identifies how much money from a variety of sources will be raised (revenues) and ultimately spent (expenditures) for thousands of services and programs.

Simply stated, budgeting becomes a necessity for every type of government since there is a limited amount of resources (i.e., money) that can be reasonably extracted from individuals and businesses.¹ As such, "budgeting is a process of allocating resources to prevent the waste of scarce resources, setting the size of

the public sector, and deciding what government activities are supported from that pool of public resources” (Mikesell 2018, 26). Even if governments had infinite resources to draw upon, they would still have to be involved in fashioning a budget (for instance, to check for efficiencies and effectiveness or guard against waste or corruption), but the budgeting process would certainly be made easier and thereby less agonizing. Governments, therefore, would merely determine how much they wished to spend in the upcoming fiscal year to provide services and programs expected or demanded of their citizens and then draw down a sum of money from an unlimited pool. But, of course, this is not reality. Throughout his classic book *City Limits*, Peterson (1981) constantly emphasizes the inherent limited fiscal capabilities of local governments. Limitations range from state constitutional and/or statutory provisions regarding revenue options and debt restrictions to the states’ willingness to share some of its revenue to economic realities of local communities to citizens’ attitudes and views toward government and taxing and spending generally. Therefore, since local governments must live within a limited amount of money available to them, this clearly implies that projected expenditures are inextricably related to and indeed dependent on the government’s ability to raise an adequate amount of revenue. Consequently, the ability of every government to amass enough money to fund desirable services and programs becomes an issue of paramount importance and ultimately determines how much money can be spent.

Given the critical part that raising revenues plays in the budgetary process, it seems appropriate that an exclusive and comprehensive examination of the revenue side of the budget as conducted in this book would be useful to both scholars and state and local government practitioners. For scholars, it would enhance the knowledge base in this area of research and aid in refining theories that seek to explain why local governments (or different types of local governments) rely more on certain kinds of revenues as opposed to other revenue alternatives. For practitioners, it would provide them with important information on revenue-raising capabilities, practicalities, and experiences of local governments in other states or in other local governments in their own state. Moreover, for reasons discussed further below in this chapter, this book will focus exclusively on the revenue-raising efforts of local governments (i.e., counties, municipalities, townships, special districts, and school districts) in the United States.

Public budgets and budgeting

As anyone knows, government spending must be financed. As explained by Mikesell (2018, 56), “receiving the benefits of a good or service is linked in the private sector to you paying for it (you have to buy it before you can use it), while in the public sector what the government provides does not determine how its operations will be financed.” Thus, public finance is divided into two distinct parts: the expenditure planning side and the revenue planning side. The

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expenditure side of budgeting “sets the size of the public sector, establishing what is provided, how it is provided, and who gets it, while the revenue side determines whose real income will be reduced to finance the provision of budgeted services” (Mikesell 2018, 56). Any thorough study such as the one conducted in this volume that examines the how’s, why’s, and what’s of raising local government revenues and provides viable explanations and motivations for these governments’ revenue choices logically needs to start with a basic description and discussion of the nature of public budgets and budgeting.

Public budgets

As noted above, public budgets describe what governments do by recording how governments raise and spend money. A budget connects tasks to be performed with the amount of resources necessary to accomplish those tasks, thereby guaranteeing that money will be available to provide police and fire protection and health care and welfare services; construct and operate recreational facilities, schools, libraries, and jails; build and maintain streets and sidewalks; conduct elections; collect and dispose of sewage and solid waste; illuminate streets and roads; and so forth. Budgets limit expenditures to the revenues available so as to ensure balance and avoid overspending. Most of the work in devising a budget is technical—for example, estimating how much it will cost to inoculate 2,000 school-aged children against childhood diseases or how much revenue will be produced from a 1 mill levy on residential and commercial properties. Public budgets, however, are not simply technical managerial documents but rather they are, in the words of Irene Rubin (1993, 1), “inherently and profoundly political” documents. In a similar vein, Harold Lasswell (1936) refers to the public budget as the single, most important political document that a government will adopt. The case for a public budget being “political” gains added credence, when one considers the following salient points made by Rubin (1993, 1–2):

- Budgets reflect choices about what governments will and will not do; that is, they reflect general public consensus about what kinds of services governments should provide and what citizens are entitled to as members of society.
- Budgets show priorities—between emergency medical services and storm water drainage, parks and economic development, libraries and solid waste collection and disposal, and the eastern versus the northern part of the county. Simply put, the budget process referees between individuals and groups who want different things from government and determines who gets what.
- Budgets reflect the virtual proportion of decisions made for local and constituency objectives and for efficiency, effectiveness, and broader public goals. In short, budgets reflect the degree of importance local legislators place on pleasing their constituents and legislators’ willingness to listen to interest group demands.

- Budgets provide a powerful tool of accountability to citizens who want to know how the government is spending their money and if government has basically followed their preferences; in this way, budgeting connects citizen preferences and governmental outcomes.
- Budgets reveal citizens' preferences for different forms of taxation and different levels of taxation as well as the ability of specific groups of taxpayers to shift tax burdens to others; likewise, budgets can signal citizens' preferences for shifting the burdens of providing services and their costs to users instead of taxpayers.
- Budgets of local governments influence local economies and subsequently affect the level of employment in the community and region.
- Budgets reveal the relative power of different individuals and organizations to influence budget outcomes. More specifically, budgetary decision-making provides a glimpse into the relative influence of budget actors within and between branches of government as well as the importance of citizens in general and specific interest groups.

In all of these ways, public budgeting is quite political. While budgeting is not typical of other political processes, it is nonetheless an important and distinctive arena in politics. It is important because of the precise policy issues revealed in the budget—that is, the scope of government, the allocation of wealth, the openness of government to interest groups, and the accountability of government to the public it serves (Rubin 1993). It is distinctive because these decisions have to occur in the context of budgeting, with its need for balance, its openness to the environment, and its requirement for timely decisions so that governments continue to operate without interruption.

In his seminal work on budgeting entitled *The Politics of the Budgetary Process*, Aaron Wildavsky (1966) also asserts that politics is a significant attribute of budgets and that budgets are strongly influenced by political forces since those people who control the executive and legislative branches are in a strategic position to determine who pays (revenues) and who receives (expenditures). But Wildavsky does not stop here in his characterization of budgets and the budget process, as he identifies three additional important features of both.

First, budgets, for the most part, are conservative entities. That is, they usually preserve the status quo, generally, do not reconsider or evaluate the merits or value of existing programs, and change incrementally from year to the next. Stated differently, budgets change very little from year to year, and the budget in a given year typically is nothing more than last year's revenue and expenditure figures with a small increment added (or deleted). The exception to this typical pattern is when local governments experience the infusion of large new sources of funds (e.g., federal revenue-sharing funds from the early 1970s through the mid-1980s and American Rescue Plan Act money in 2002–24). In such instances, budgets can experience significant change.

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Second, budgets are fundamentally fragmented documents. This owes to the fact that innumerable people—members of Congress, state legislators, city/county councils and commissions, township-governing boards, school boards, special districts, those who serve on congressional and state legislative and local government legislative bodies’ committees and sub-committees, presidents, governors, mayors, city managers, county administrators, staffs of budget offices, interest groups, members of civic associations, and concerned citizens—have a hand in the preparation of budgets. Simply stated, no single individual or small group of people have a monopoly over the construction of budgets.

Finally, budgets historically have usually been non-programmatic in the sense that they rarely include performance standards that agencies and programs must achieve in order to merit the allocation of resources for another fiscal year. However, with the introduction of the planning-programming budgeting system into the federal budgeting process in the early 1960s, more and more local and state governments also began to adopt this new mode of budgeting or some variant of it.

Public budgeting

In its simplest terms, budgeting is the deliberate process that any organization—private or public—undertakes to identify and allocate limited resources for the purpose of providing sundry goods and services to a designated clientele or constituency. With respect to the public sector, the budget process is a formalized routine process that involves the legislative and executive branches of government. According to Mikesell (2018, 25), “the [budgetary] process fulfills tasks similar to those of an economic market because it determines what government services will be provided and how they will be financed.” As the opening story of a medium-sized city in suburban Philadelphia suggests, governments have some method for making financial decisions, although the amount of formality varies widely. For the most part (with the exception being the small number of town-meeting and referendum decisions), elected representatives ratify the decisions of the nonelected budget making personal. In budget preparation and implementation, nonelected public employees (i.e., bureaucrats) make many vital decisions. While these employees typically have job security and may be less responsive to public demands for service than elected officials, the logic of representative government posits that bureaucrats can be made to respond to executive and legislative orders emanating from the citizenry.

In public budgeting, the expenditure and revenue sides of the budget are like hand and glove and are inseparable since the document that is produced must balance. This is due to the fact that every state, either through its constitution or by statute, mandates that the budgets of all local governments—as well as the

budget of the state government—be balanced. Balance means only that spending (expenditures) is matched or exceeded by income (revenues). In those cases where projected expenditures exceed projected revenues, a budget may technically be balanced by borrowing. The borrowing, of course, has to be paid off over time; thus, borrowing means spending more now and paying more in the future in order to maintain balance.

With that said, public budgeting however cannot proceed without some kind of decision-making process. Even in the most rudimentary scenarios of public budgeting, there must be some limit set to spending, some order of decision-making, some way to structure comparisons among alternatives, and some way to compare expenditure and revenue choices (see Rubin 1993). Furthermore, public budget processes must control the flow of decisions so that they are made in a well-timed manner (Rubin 1993; Lee, Johnson, and Joyce 2020).

While it is often useful to compare public budgeting and other types of budgeting (individual and organizational), public budgeting is different in five major ways. First, public budgeting is characterized by a multiplicity of budgetary actors who often have different priorities and different levels of influence over budget outcomes. These actors have to be controlled and coordinated by the budget process. Second, in government, there is a difference between those who pay taxes and those who determine that how money will be spent—citizens and the elected politicians. Public officials can compel citizens to pay taxes for expenditures they do not desire, but citizens can vote politicians out of office. Third, the budget document is important as a way to ensure public accountability in both elected and appointed officials. Fourth, public budgets are very susceptible to influences from the environment—to the economy, to changes in public opinion, to elections, and to local contingencies such as natural disasters like hurricanes and earthquakes or political disasters like rioting and insurrections. Fifth, budgets are extremely constrained. In spite of the built-in necessity to make budgets adaptable to unforeseen events and emergencies, there are many aspects of public budgets that are outside the direct control of those who devise budgets.

In addition to these characterizations and descriptions of public budgets and the public budgeting process, government officials at all levels usually have added their own descriptions. For instance, they often refer to the budgetary process as a ubiquitous experience that never seems to end or that it seems like they must start the process all over again for the next fiscal year almost immediately after they have “put to bed” the newly crafted and adopted budget. Moreover, government officials are constantly reminded of the important responsibility that they have in raising and spending the community’s scarce resources and that they were elected to be good stewards of the public’s money. Others have likened the experience of preparing and executing their government’s budget to the ultimate “high wire act,” as they meticulously try to appease as many people

as makes sense and offend as few as possible. In spite of the best and most noble intentions of elected officials, however, some would conclude that the end result of the budgeting exercise is akin to the old adage of “you are damned if you do and damned if you don’t.” Perhaps, Charles Lindblom’s portrayal of the budgetary process as one in which political actors engage in the art of “satisficing” sums up what seems like an endless array of compromises that must take place in the exasperating effort to try to please everyone (Lindblom 1959).

While it may be said of all government officials, it seems that local officials may have more to agonize over or debate as to how they spend what always seems to be insufficient money available to them or the lack of authority to consider additional revenue options.² They perhaps struggle and deliberate more about how to raise the revenue required to doing all of the things that their governments must do, are expected to do, and are presently doing. Should they rely most heavily on the owners of commercial and residential property (i.e., real estate and structures located on it) in their community to finance the operations of the government? Or, should they broaden the revenue base of the government to include all wage earners—that is, both those who own and those that do not own any real estate? Or, should the government seek to identify specific users of their jurisdiction’s services and thereby employ user fees or special assessments? How much should they depend on or expect from their state or the federal government to provide outside money in the form of grants-in-aid or shared revenue? How much revenue should they estimate will be generated from fines and property and/or money forfeited to the government. Finally, will all of the above revenue sources produce enough money to pay for projected expenditures or will it be necessary to borrow money to balance the budget? Each of these revenue sources has its pros and cons and economic and political implications. And, those combinations that worked best in the past may not be available, appropriate, or feasible in the future. Moreover, what works for one government may not work for another government. In short, the art of determining the best mix and degree of reliance on various streams of revenue is not an exact science, and at times, must seem like having to “shoot at a moving target” for local government officials.

Why the focus on local governments?

Two principal motivations can be offered for the selection of local governments (and consequently the revenue streams they tap to provide a long list of services) as the focus of this book. One motivation has historical roots that are grounded in Americans’ philosophical and ideological view of government and its relationship to the governed (i.e., a historical high regard for and faith and trust in local government). A second motivation is directly and inextricably related to the practical, everyday importance of local governments in the lives of the citizens they serve and the sheer volume of services

they provide, what it costs to provide these services, and how these services are paid for.

High regard and citizenry preference for local governments

Historically, local governments in the United States (i.e., full-service governments like counties and municipalities and limited-service entities like townships, special districts, and school districts) have been viewed by the public as the preferred “governments of choice” to deliver the most basic, staple services instead of the national (federal) or state governments. This is in spite of the fact that there is some degree of comingling of service financing, production, and even provision at times. Several reasons seem to account for the citizenry’s first preference for local governments.

First, Americans have always had a clear preference for decentralized government, believing that this type of governmental arrangement is a logical safeguard against tyranny and authoritarianism. Closely related to this widespread citizenry perception is the belief that dispersal of power in a political system that accompanies decentralization is a further protection from the possibility of government abuse and oppression. Generally speaking, Americans, while preferring the least amount of government intervention possible, tend to be more trusting of their local governments which are viewed as being closest to them than their state governments or the national government. This is supported by innumerable public opinion polls conducted by survey research institutes at major U.S. colleges and universities such as the much-heralded Survey Research Center (SRC) at the University of Michigan, notable media outlets (e.g., *The New York Times*, *The Washington Post*, *Miami Herald*, *USA Today*), many state and local governments, private polling companies such as Gallop, Roper, Nielson, PEW, and until the early 1990s, the U.S. Advisory Commission on Intergovernmental Relations (ACIR).

Second, there is the belief that local government officials who are closer to the people will behave more responsibly and be more responsive to citizenry expectations, opinions, and needs. That is, it is believed that local officials, who for the most part are more accessible and easier to monitor, will be more accountable, attentive, and willing to take guidance from their constituents, fearing retribution in future elections or could face the possibility of a recall in between elections. In short, it permits citizens to keep their public officials on a proverbial “short leash.”

Third, there is the presumption that local governments are better able to insure greater efficiency in government operations, more effectively utilize resources at their disposal, and are more likely to tailor programs and services to the needs, preferences, and affordability of its citizens. Simply put, it is believed—rightly or wrongly—that many specific services can be better managed and delivered by a local government. For the typical citizen, it is not only logical

but preferred that a government at the most local level determines what days of the week that solid waste (i.e., garbage) is collected, streets are swept and cleared of snow, and parks, recreation facilities, and libraries are open, what type of police cars and firefighting apparatus (and the kinds of equipment on them) should be purchased, where traffic lights should be erected and if they should be synchronized, decide on landscaping and housing/business setback distances, reasonable speed limits, location of fire stations, establish land use designations, and so forth.

Fourth, local officials, because they live and work among their constituents, are likely to be more mindful of and take into account the philosophical views of constituents and the unique political culture (traditionalistic, individualistic, or moralistic)³ of the community. In fact, there is something to be said for remaining immersed in one's community while serving as a public servant, as opposed to spending a lot of time as an elected official in the distant state capitol or Washington, DC. Affirming this point, Perlman (2016, 189) writes: "In designing, and delivering [local] services, there is a ground assumption that the choices made for the amount, level, or emphasis of services are the expression of local preferences, community mores, and homegrown values."

Consider these two scenarios. On the one hand, it is logical to expect that an elected official who resides in an area characterized by a blend of a traditionalistic and an individualistic culture would be sensitive and responsive to the belief that government activity should be minimized and that government should resist the temptation to interfere with the natural workings of the market place and free enterprise. Moreover, local governments in this type of setting and also exhibiting a private-regarding perspective would typically keep taxing and spending relatively low. On the other hand, one would anticipate that an elected official from an area that can be best described as having a moralistic culture would be more inclined to envision a more activist role for local government in the provision of services. Likewise, communities marked by a moralistic culture and a public-regarding ethos, with an inordinate amount of revenues, may well spend more money on the "niceties" (e.g., swimming pool, libraries, and parks) rather than simply the necessities (education, police, fire protection, EMS) of community well-being. Furthermore, it is reasonable to speculate that nonelected government officials (bureaucracy) would take their cues from the elected officials as well as their own awareness of the predominant political culture.

In addition, local officials are thought to be more sensitive to the demographic characteristics of their community and constituents and less likely to embrace the "one size fits all" approach to service delivery. Local officials typically are very familiar with the needs and service preferences of their community they represent and what the citizens living there can afford to pay in the way of taxes and fees by virtue of their awareness of the racial/ethnic composition of the community, variability in the income and education levels, and age and religious affiliation of the citizenry. Local officials can also take things into consideration

like population growth rate and population density of the community as well as the level of urbanization and political culture.

Practical importance of local governments

The second motivation for choosing to focus on local governments in this book centers around the undeniable, ubiquitous, and huge presence and importance of local governments, given the wide range of services they provide on a daily basis. Without question, local governments in the United States profoundly and frequently touch the lives of all Americans. For most Americans, local governments are the entities that provide protective inspections (e.g., safety, building, health), fire, police, and consumer protection, a variety of health care services (including hospitals and mosquito abatement), welfare assistance, EMS services, parks and recreation facilities and programs, and potable water and water for other purposes (bathing, cleaning, washing clothes, sprinkling lawns and shrubbery). In addition, they are expected to establish and operate court systems to adjudicate civil disputes and criminal matters, corrections facilities, cemeteries, museums, stadiums, sports arenas, marinas, water transportation facilities, libraries, and education services (including K-12 schools and community colleges). If that is not enough, local governments are responsible for immunization against diseases, construction and maintenance of roads and bridges, operating airports and mass transit systems, keeping vital statistics (e. g., births and deaths), conserving national resources, establishing and operating the machinery for elections, promoting economic development, engaging in redevelopment and revitalization of blighted areas, just to name a few. Suffice it to say that there is more that local governments do, but there is not enough space here to list them.

This abridged listing of the countless number and variety of local government services only scratches the surface of the many ways in which counties, municipalities, townships, special districts, and school districts impact and improve the quality of life for those residents who live within these jurisdictions through the provision of vital services and associated programs. Moreover, the number, diversity, and complexity of local government services have grown exponentially over the years. This has been so in spite of early American thinking that characterized government—even democratic types—as a “necessary evil” that had to be established and tolerated while yet closely monitored and policed to protect the citizenry from oppression, tyranny, and corruption. Suspicion of and cynicism toward government in early America (although somewhat less so for local governments than for the national government and state governments) was commonplace in colonial America as well as in the new Republic well into the early 20th century. It should be remembered that it was the revered Thomas Jefferson, who, speaking for most Americans of his time, passionately insisted that “government which governs least, governs best.” Throughout the 19th century and into the first three decades of the 20th century, Americans strongly

embraced the basic precepts of laissez-faire and Social Darwinism. This period of time, but especially the period of roughly 1870–1930, was also marked by massive waves of immigration and the rise of powerful political party machines (e.g., Tammany Hall in New York City headed by the likes of William “Boss” Tweed, Charles Murphy, “Big Tim” Sullivan, and Jimmy Walker, Curley machine in Boston, Hague machine in Jersey City, Magee machine in Philadelphia, and Pendergast machine in Kansas City) that led to the expansion of the service role of cities and counties. Expansion continued under an era of reformism push-back that resulted in the adoption of new forms of local government (e.g., commission and council-manager types). Over time, therefore, Americans would become increasingly accepting of a more active, public-regarding, and progressive form of governance and an enlarged role for government (including greatly enhanced service roles for local governments) in keeping with the basic tenets of the New Deal and Great Society periods. Governments, at all levels during these two epic periods, were given greater latitude to breathe new life into the lofty platitudes contained in the U.S. Constitution pertaining to the expectation that government ought to vigorously “promote the general welfare” through the power to tax and spend.

Quite often today, people take local government services for granted and do not necessarily make the connection between what they pay in the way of taxes, fees, levies, assessments, and so forth and the provision of sundry services that are readily available to them. It is as though people believe that they have an inalienable right to expect a vast array of local government services that in their totality are intended to produce the “good life” for all Americans. Americans’ thinking in this regard is closely akin to children’s belief in a benevolent Santa Claus with unlimited resources who joyfully dispenses toys, clothing, candies and other goodies, and other things to everyone without regard to race, creed, color, religion, or income. Accordingly, everyone should be entitled to a minimum level of health care services, a decent place to live, food to eat, a job (and if needed, job training), welfare assistance and social services in hard times, a quality and meaningful educational experience, protection from criminal elements, predators in the business sector, natural events (fires, hurricanes, floods, etc.), potable water and safe disposal of sewage and solid and hazardous waste, parks and recreational facilities, social events (e.g., county fairs, parades, and exhibitions) and amenities (including but not limited to museums, sports stadiums and arenas, and marinas), libraries, promotion of economic development, airports and seaports, conservation of natural resources and well-planned and maintained communities, roads, streets, sidewalks, street lighting, traffic control, agricultural advice, cable television, and many, many other things. Sometimes, it appears as though local government citizens have not seen a service that they do not like or would not want to have. Furthermore, when asked in the many surveys that are conducted by and for local governments annually, those who live within the jurisdictions of the Nation’s counties, municipalities

townships, special districts, and school districts overwhelmingly indicate a desire to either enlarge the scope of existing services or add to the current menu of services, while rarely expressing a wish to reduce the number and scope of local government services.

In undertaking the huge responsibility to provide so many varied services, local governments in many ways resemble and operate like large private sector firms and corporations. That is, they employ lots of workers and provide them with wages and fringe benefits, deal with the same kinds of personnel issues and abide by relevant labor laws, purchase raw materials and goods necessary to produce services, interact with consumers (citizens both in and outside of their jurisdiction) who use their services and other entities (other governments) that may produce similar products or services, can be affected by both a sluggish and booming economy, and can declare bankruptcy and go into receivership (e.g., the cities of Detroit, Michigan and Stockton, California and San Bernardino and Orange Counties in California). An additional and sometimes overlooked similarity is that local governments tend to be major players and stimulants in the local economy, as they can employ thousands of workers and be a major purchaser of materials and products from private sector firms in their area. The only difference, it seems, between local governments and private sector companies is that local governments (like any government) typically are not driven by the profit motive, but even if that is not always true as there are increasing incidences of local government agencies being abolished, reorganized, or reinvented when they have been inefficient, wasteful, outmoded, corrupt, or unpopular.

Like their counterparts in the private sector, local governments spend lots of money to produce and dispense products (or services). Moreover, like private sector companies, local governments must generate large sums of money to sustain themselves and provide a plethora of services. Sometimes, this money is generated by selling services (i.e., by implementing a system of charges for services or user fees). But, most of the time, the money necessary to carry on the operations of local government is extracted from the consumers of government services (i.e., citizens under the government's jurisdiction) through the levying of taxes, fees, and assessments. Additional revenue comes from grants-in-aid, loans, shared revenues from the federal and their state government, sale of bonds (or borrowing), and a variety of miscellaneous sources of revenues (e.g., fines and forfeitures, interest income, dividends, sale of property, liquor store sales, rents, royalties, and donations from private sources).

According to the latest expenditure data available from the U.S. Bureau of the Census's *Census of Governments* series, the cost of providing this enormous assortment of local government services in 2020 was a staggering \$2.147 trillion in total expenditures or \$6,515 per capita (see [Table 1.1](#)).⁴ By comparison, total expenditures done by state governments were \$2.705 trillion or approximately \$400 billion more than that for local governments or \$8,210 per capita. This perspective on expenditures, however, changes as the focus shifts to an

Table 1.1 Total, Direct, and Per Capita Expenditures of Local Governments, 2020

	<i>Total Expenditures</i>		<i>Direct Expenditures</i>	
	<i>Expenditures*</i>	<i>Per Capita</i>	<i>Expenditures*</i>	<i>Per Capita</i>
Local	\$2.147	\$6,515	\$2.129	\$6,462
State	\$2.705	\$8,210	\$2.098	\$6,368

* In trillions of dollars.

Source: U.S. Bureau of the Census. 2017 Census of Governments. Compendium of Government Finances (Washington, DC: Government Printing Office), Table 4.2.2. Available at: <https://federalism.us/significantfeatures>. Accessed on June 13, 2021.

inspection of direct expenditures for both governments. Here, it can be seen that local governments were responsible for a *larger amount* of expenditures in terms of both dollars spent (\$2.129 trillion versus \$2.098 trillion) and per capita spending (\$6,462 versus \$6,368). This finding is hardly surprising since states routinely redirect a sizable amount of the revenue they collect to their local governments via grants-in-aid and revenue-sharing agreements that show up as direct expenditures of local governments rather than direct expenditures of states.

In order for local governments to be able to spend these huge sums of money and provide an enormous array of services and thereby satisfy the rising expectations of their citizens, local governments must also raise large sums of money—indeed, trillions of dollars on an annual basis. It is important to remember that local governments in all 50 states are either statutorily or constitutionally required to have a balanced budget. Therefore, this means that their revenue collections must be at least equal to or exceed their expenditures or financial outlays.

In 2020, total revenue collections from all sources for all local governments (i.e., counties, municipalities, townships, special districts, and school districts) amounted to \$1.917 trillion (or \$5,818 per capita), while around \$1.25 trillion of that sum or \$3,799 per capita was in the form of own source revenue (see [Table 1.2](#)).⁵ By comparison, state governments amassed a considerably larger sum of money—\$2.305 trillion in total revenue or \$7,001 per capita—with

Table 1.2 Total, Own Source, and, Per Capita Revenue of Local Governments, 2020

	<i>Total Revenue</i>		<i>Own Source</i>	
	<i>Revenue*</i>	<i>Per Capita</i>	<i>Revenue*</i>	<i>Per Capita</i>
Local	\$1.917	\$5,818	\$1.252	\$3,799
State	\$2,307	\$7,001	\$1,461	\$4,435

* In trillions of dollars.

Source: U.S. Bureau of the Census. 2017 Census of Governments. Compendium of Government Finances (Washington, DC: Government Printing Office), Table 4.3.2. Available at: <https://federalism.us/significantfeatures>. Accessed on June 13, 2021.

\$1.461 trillion or \$4,435 per capita of this amount being derived from own source revenues. Although state governments collected roughly \$400 billion more in general revenue than their local governments, a comparison of total and direct expenditures in [Table 1.1](#) indicates that state governments did not directly spend at least \$600 billion of the revenue they collected. A large part of this \$600 billion was distributed to local governments through various grant-in-aid programs or through a number of revenue-sharing arrangements. This means, therefore, that local governments have much more money available to pay for service provision than their revenue derived from own sources would indicate.

This second perspective of local governments that clearly portrays them as pivotal providers of innumerable staple and much-sought-after services by the public is perhaps the most compelling motivation for conducting a detailed study of local governments and subsequently the revenue streams they depend on to provide these services in a book-length treatment such as this volume. More credence is given to this argument since the amount of money that local officials can legally spend is ultimately determined by how much money they can or are willing to raise, given state constitutional or statutory balanced-budget provisions. Therefore, it is not difficult to imagine that the chief focus in the budgetary process quickly becomes one of wrangling over what are the most politically expedient and palatable ways to raise an amount of money to pay for an acceptable or mandated level of services. And, as those people who are close to the budgetary process readily know, raising revenue is far from a value-free exercise but is one that frequently involves political calculations and risks, economic, cultural, and social considerations, and ideological and value-laden perspectives and concerns.

Other motivations for focus on local governments

Beyond the historical and practical reasons discussed above for examining local government budgets and their unique budgetary processes, there are other important incentives for a special focus at the local level.

First, even a cursory examination of textbooks on local government and politics reveals that they do not devote much attention to budgets and the budgeting process. While these books will typically cover the basics of what budgets are, describe the features of different types of budgets, identify major categories of expenditures and revenue sources, and walk the reader through the various steps in the budgetary process, they usually dedicate little, if any, coverage to revenue trends over time or variations in revenue sources within and among all five types of local governments. What is routinely presented is, at best, a snapshot in time of the most current total revenue figures or revenue numbers disaggregated by major categories (e.g., taxes, fines and forfeitures, charges for services, inter-governmental, and miscellaneous) for cities and sometimes counties but rarely for townships, special districts, and school districts.⁶