Trends in State and Local Government Finances, 1967 to 2017

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Abstract

This report examines longer-term trends in state and local government fiscal conditions and highlights the changes in spending and revenues over the 50 year period from 1967, the year the Multistate Tax Commission was founded, to 2017, the latest year for which data is available. In the aggregate, the composition of state and local government spending by type has changed dramatically in the past 5 decades. For example, spending for net investment has declined as a share of state and local expenditure, while spending for health and social welfare benefits has increased dramatically. The change in the composition of spending type is reflected in the change in the functional breakdown of spending. Spending for health and social welfare benefits, including Medicaid, has outstripped the growth on spending for transportation, education, and general public functions.

To some extent, the crowding out of net investment is correlated with broad demographic changes; such as the increasing median age in the United States. However, State and Local governments play a crucial role in maintaining the capital stock, and educating labor force. They must balance these needs with the needs of an aging population that demands more social services.

In additional to changes in both the form and functional distribution of spending, States and Localities have altered the way revenues are raised. For example, taxes now carry a smaller share of the state and local revenues than they did 50 years ago. Only individual income and general sales tax have grown in their share of State and Local extractions from the economy.

I. Introduction

The fiscal structure of state and local governments has changed significantly since 1967, the year the Multistate Tax Commission was founded, both in the how revenues are raised and how those revenues are spent. Further, the aggregate size of the state and local government sector has increased dramatically when compared to the growth of the U.S. population and has increased relative to the size of the economy measured by Gross Domestic Product (GDP), albeit, at a much less dramatic rate. This monograph illustrates some of the changes in the fiscal structure of state and local governments over the last 50 years.

There are a number of reasons why citizens and government must pay attention to the fiscal health of states and localities. First there is the large size of the state and local public sector. According to the Bureau of Economic Analysis (BEA), total state and local expenditure was approximately $3.24 trillion in 2017. According to the Bureau of Labor Statistics there were

approximately 19.5 million part time and full time employees of state and local governments across the United States, as of June 2018.[1] State and local government employees also make the vast majority of total government employees in the United States, totaling 22.34 million in June 2018.[2] Of all government employees in the United States, 64.6% worked at the local level and 22.8% worked at the state level.[3]

State and Local governments directly contribute to national output (GDP) through their consumption of goods and services used in the production of public services; and, by their capital investment.[4] The Bureau of Economic Analysis (BEA) defines consumption as government purchases of intermediate goods and services, including workers, the capital used in the production of the services, less: sales to other sectors and state and own account investment. For example, computer software produced by a government agency for use by that agency; and possibly by other agencies would be considered own account investment. Obvious examples of general government investment include: roads, tunnels, and bridges, sewage treatment plants, public housing, and general public buildings. In 2017, gross investment of the state and local public sector in current dollars was approximately 1.75 percent of GDP[5]; and, state and local government consumption plus sales to other sectors was 11.56% of GDP.[6]

States and localities also contribute to GDP, albeit indirectly, through transfers to individuals which may increase consumption by households and induce investment of private enterprises. Transfers to individuals can include funds for medical services, income support or retirement to list a few. State and localities also affect national output through the resources extracted from the private sector through taxes and charges for services. In 2017, total state and local revenue from their own sources was approximately 14.8% of Net Domestic Product (NDP).[7] Taken together, government consumption and investment represents what government is putting into the economy. Government revenues represent what the government is extracting from the private sector and consumption and investment represent what the government is putting into the economy; the

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[1] Current Employment Statistics. Bureau of Labor Statistics. June 2018. https://www.bls.gov/web/empsit/ceseeb1a.htm

[2] Current Employment Statistics. Bureau of Labor Statistics. June 2018. https://www.bls.gov/web/empsit/ceseeb1a.htm

[3] Current Employment Statistics. Bureau of Labor Statistics. June 2018. https://www.bls.gov/web/empsit/ceseeb1a.htm

[4] A more detailed exposition of government consumption of goods and services can be found in the APPENDIX.

[5] Table 3.9.5 "Government Consumption Expenditures and Gross Investment". US Department of Commerce, Bureau of Economic Analysis. June 2018.

[6] Table 3.10.5 "Government Consumption Expenditures and General Government Gross Output". US Department of Commerce, Bureau of Economic Analysis. June 2018.

[7] In the long run, capital equipment must be maintained or the productive capacity of the economy will be reduced therefore more appropriate to relate the tax burden to net national or domestic product than to gross national or domestic product. See Tax Foundation, Inc., Research Aid No. 4, ***The Tax Burden in Relation to National Income and Product***, New York, NY, 1957, p. 7.

difference in their revenue and expenditure approximates the state and local sector's impact on capital markets through borrowing or lending.

The extent to which government provides and produces goods and services *should* be localized is a matter of contentious debate in the United States. However, public finance economists generally agree that the fiscal activities of states and localities bring about an efficient allocation of national resources. That is, in countries with great diversity in demands for public services and wide variation in the costs of providing these services, allowing a relatively large degree of fiscal autonomy for specific regions allows a wide variety of regional demands to be met cost effectively. As stated by the late prominent economist, Wallace Oates in his article in the ***Journal of Economic Literature***[8]

> "Decentralized levels of government have their *raison d'etre* in the provision of goods and services whose consumption is limited to their own jurisdictions. By tailoring outputs of such goods and services to the particular preferences and circumstances of their constituencies, decentralized provision increases economic welfare above that which results from the more uniform levels of such services that are likely under national provision."
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> In particular, we find that the potential gains from decentralization stemming from interjurisdictional differences in demand vary inversely with the price elasticity of demand. If the costs of provision are the same across jurisdictions, but demands differ, then the extent of the welfare loss from a centrally imposed, uniform level of output increases, other things equal, with the price inelasticity of demand.[9] There is a large body of econometric evidence that finds that the demand for local public goods is typically highly price inelastic. This suggests that the potential welfare gains from decentralized finance may well be quite large.[10]

These findings were supported by three other prominent economic scholars: Serdar Yilmaz, François Vaillancourt, and Bernard Dafflon. These authors state:

> "…if a society is to achieve an efficient allocation of its scarce resources, then not only is there a clear case for public sector provision of goods and services, but also, to achieve

[8] Wallace E. Oates, "An Essay on Fiscal Federalism," ***Journal of Economic Literature***, Vol. 37, No. 3. (Sep., 1999), pp. 1120-1149.

[9] In tax analysis, we are accustomed to a quite different result: the deadweight loss varies directly with the price elasticity of demand. Here it is just the reverse, since the distortion takes place on the quantity, rather than the price, axis. But interestingly, if the source of the difference in efficient local outputs is cost differentials, then the gains from fiscal decentralization bear the opposite relationship to the case where their source is differences in levels of demand: these gains then vary directly with the price elasticity of demand (Oates 1998).

[10] For surveys of this econometric literature, see Rubinfeld (1987) and Oates (1996a). For an attempt actually to measure the welfare gains from decentralization, see David Bradford and Oates (1974); they find large gains.

> efficiency, the system of government should be decentralized -- that is, economic efficiency requires state and local fiscal autonomy."[11]

This article is attended to provide an ex post view of state and local finances over the past 5 decades. Aggregate changes in the level and composition of spending by type and by function and changes in the level and composition of revenues by type are examined. It is important to note that states and localities are not monolithic, even though they are treated as such in the data analysis. In reality, 50 states and approximately 90,000 localities form a single federal republic. It is also important to note that localities have a varying degree of fiscal autonomy from state to state and city and city.

The next section presents data on state and local government expenditures per household, relative to size of the entire economy, by type, and by function. The section following the expenditure presents data on revenue trends – revenues in relation to the size of the economy and by major source. The fourth section will present differing views on the current and some projections of fiscal conditions of state and local governments. The last section will contain a summary and conclusion. The APPENDIX contains discussion of the source and definitions of the data; the bulk of which come from the National Income and Products Accounts (NIPA) published by the U.S. Department of Commerce, BEA.

The following section of this article presents. The fourth focuses on general trends in state and local finances, specifically revenues in relation to the size of the economy and by major source. The fifth section will present views on the current fiscal conditions of state and local governments, as well as some projections. The last section will contain a summary and conclusion. The bulk of the data comes from the National Income and Products Accounts (NIPA) published by the U.S. Department of Commerce, BEA.

II. Expenditures

Both the composition and sources of state and local expenditure have changed significantly in the past 50 years. The data reveals that since the late 1960's, state and localities have shifted from delivering services and investment (particularly on infrastructure) towards the delivery of social services. This is especially true for social services related to the health and medical services.

State and local governments play a vital role in the construction and upkeep of the nation's infrastructure, Local roads, highways, bridges, sewage, health facilities, schools and other public buildings are crucial to the regional and the national economies. The shifting of budgetary priorities of all governments away from investment has created a national problem. According to the American Society of Civil Engineers (ASCE), the nation faces a funding gap for infrastructure between 2016 and 2025 of $1.44 trillion (in 2015 dollars), and a projected loss of GDP between

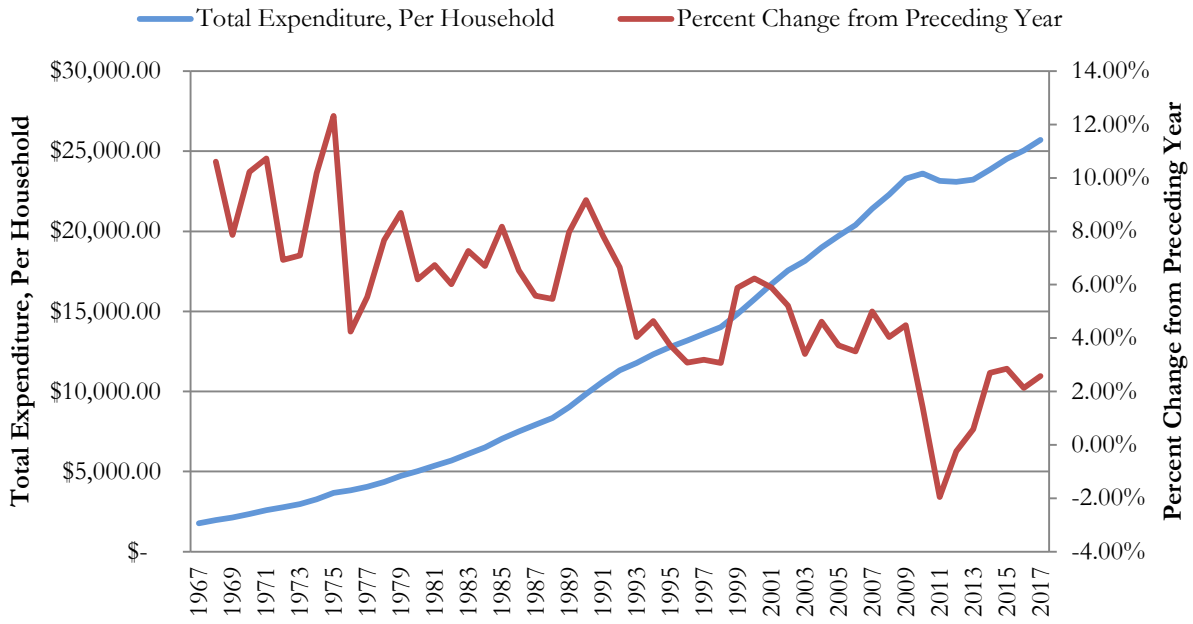
[11] Serdar Yilmaz, François Vaillancourt, and Bernard Dafflon, "State and Local Government Finance: Why It Matters," *The Oxford Handbook of State and Local Government Finance*, 2012, Robert D. Ebel and John E. Petersen, editors, p.129

2016 and 2025 of nearly $4.0 trillion.[12] There are multiple ways to accurately illustrate the current infrastructure deficit; this will be touched on a later section.

A. Size of State and Local Sector: Expenditure per Household

The graph below shows how state and local expenditure per household has changed since 1967. In 1967 state and local expenditure per household was approximately $1,781 per household; in 2017 the figure was approximately $26, 696 per household. During this 50 year period, state and local expenditure per household grew at a very consistent pace – about 5.48 percent per year. In the aftermath of the Great Recession, state and local expenditure per household fell from $23,603 in 2010 to $23, 086 in 2012. Total state and local spending has risen from $105.5 billion in 1967 to $3.24 trillion in 2017.[13]

Total Expenditure, Per Household, and Percent Change from Preceding Year
1967 - 2017



Between 2010 and 2017, the average annual growth rate in state and local expenditure was 1.22%. Between 1974 and 1975, total expenditures rose by 14.35 percent and 12.32 percent per household, the largest year-to-year change. The smallest year-to-year change occurred between 2010

[12] American Society of Civil Engineers, *Failure to Act, Closing the Infrastructure Spending Gap for America's Economic Future, 2016,* at 11.

[13] Expenditure data from Table 3.3 "State and Local Government Current Receipts and Expenditures" (Addenda), plus the Sales to Other Sectors from Table 3.10.5 "Government Consumption Expenditures and General Government Gross Output". US Department of Commerce, Bureau of Economic Analysis. June 2018. Household data from the US Census Bureau.

and 2011, negative 1.95 percent per household.[14] Although it appears that state and local government expenditures per household have risen, with very few exceptions, at a fairly constant rate since 1967, this is not the case. The slope of the trend line of year-over-year percent change in per household expenditures is distinctly negative; that is, the *rate of growth,* with exceptions, of per household expenditures has been declining during this 50 year period. The Great Recession of 2007-2008 may have accelerated the trend but was not the cause of slowdown in the rate of growth of state and local expenditures.

B. Size of State and Local Government Sector: expenditures to GDP

Perhaps the best way to estimate the relative size of the state and local government sector is to look at that sector's direct impact on the aggregate economy. The U.S. Bureau of Economic Analysis, the agency which produces the measures of Gross Domestic Product, includes government consumption plus gross investment as integral components of GDP. In this monograph we compare the sum of state and local gross output and gross investment to GDP. Gross output is equal to the sum of employee compensation, the contribution of state and local government owned capital used in producing the output (capital consumption allowances), and the cost of intermediate goods and services purchased. Other components of government consumption sales to other sectors and own-account investment) have been grouped as part of revenues and gross investment, respectively. This ratio (gross output + gross investment/ GDP) gives us a good picture of the direct economic impact of the state and local sector on the national economy.[15]

When measured in constant dollars, the value of the ratio which indicates the size of the state and local sector has declined since 1967. The graph below shows how in 1967 the ratio was 11.49%; the ratio peaked at 13.96% in 1975, before declining to 12.11% in 1984. From there, it has risen to an all-time high of 15.79% in 2009, before dropping to 13.66% in 2016. However the long term trends in this ratio have followed an opposite trajectory when it is measured in *constant* dollars. This ratio started at 18.46% in 1967. Rising from 1967 to 1975, peaking at 20.18%, the ratio has since been on a steady, reaching 13.27% in 2016.

The generally upward trend in the ratio of state and local consumption and gross investment to GDP was partially explained by Professor William Baumol in his seminal article on this topic. Professor Baumol posited that the economy could be divided into sectors in which productivity growth was fairly rapid, manufacturing, for example, and sectors in which productivity growth was slow, or non-existent, services, in general, and government in particular. There would be varying degrees of productivity growth in the remaining sectors. Professor Baumol further assumed that

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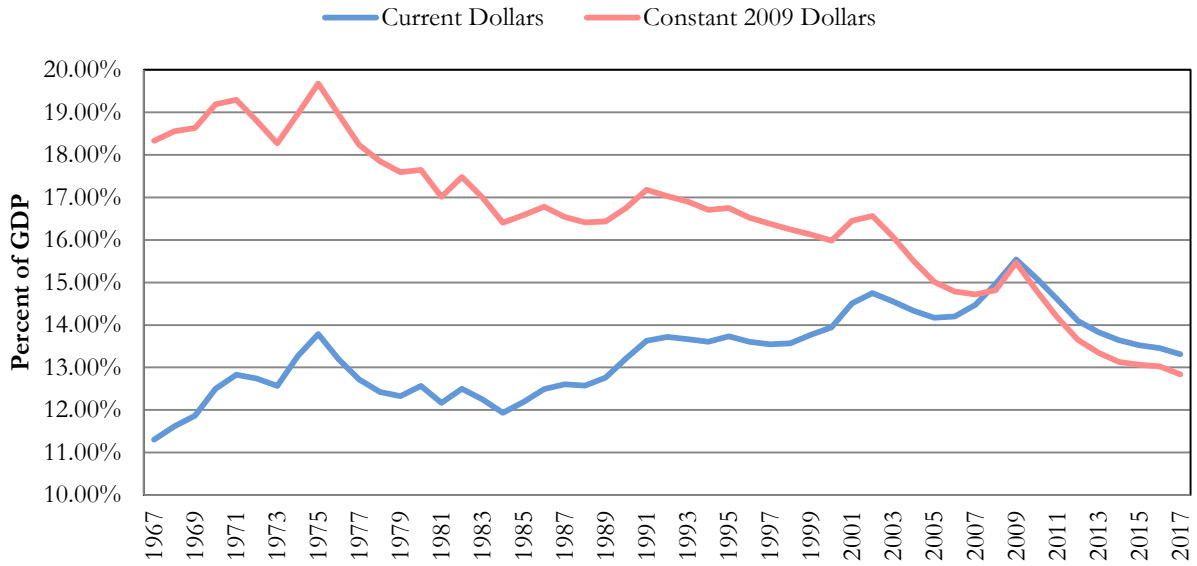
[14] Expenditure data from Table 3.3 "State and Local Government Current Receipts and Expenditures" (Addenda), plus the Sales to Other Sectors from Table 3.10.5 "Government Consumption Expenditures and General Government Gross Output". US Department of Commerce, Bureau of Economic Analysis. June 2018.

[15] Government consumption and gross investment are components of GDP. *See* http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=6.

labor compensation would rise in the sectors in which labor productivity growth was relatively rapid; and, that compensation in sectors with relatively slow productivity growth would also rise. In some sectors, the rising costs would result in a decline in the relative size of the sectors; and, in others, the

State and Local Government Adjusted Consumption and Gross Investment as a Percent of GDP 1967 - 2017



rising costs would result in an increase in the relative size of the sector; e.g., state and local governments. [16] Between 1967 and 1985, state and local expenditures in current and constant dollars followed a similar trajectory. The trajectory of state and local expenditure continued to rise in constant (2009) dollars, and began to fall in current dollars.

Between 1967 and 1975, the state and local sector grew in terms of its portion of national GDP. Between 1975 and 1984 the state and local sector shrank in terms of its overall impact on national output. Between 1985 and 2009, the state and local sector grew in terms of current dollars, and shrank in terms of constant dollars. Since 2010, the state and local sector has declined significantly as a portion of the national economy in terms of both constant and current dollars.

Baumol's Disease, meaning the rising costs in the public sector relative to the general economy resulted in the generally upward trend in the cost of providing public services while the real level of public services, relative to the overall economy fell.[17] Bates and Santerre found that Professor

[16] William J. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," ***The American Economic Review***, Volume 57, No. 3, June 1967, pp 515-426.

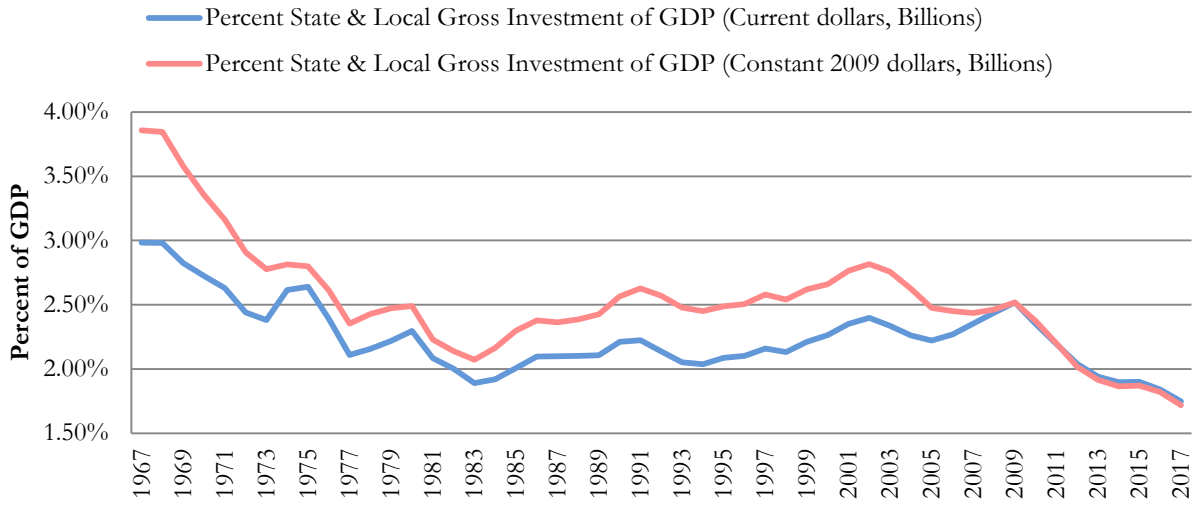
[17] The differences in the relative rates of change in the cost of providing state and local government services relative to GDP may be approximated by the change in the relative price deflators. From 1960 to 2015, the GDP price deflator rose by an average annual rate of 3.4 percent. The average annual rate of change for the

Baumol's original hypothesis is supported by empirical evidence the differing rates of productivity growth in the state and local government sector and the general economy are responsible for some of the rising costs in this sector.[18]

These results should be taken with a grain of salt. Public sector output is measured by cost of inputs; therefore it's extremely difficult to measure productivity changes in the public sector because usually, there is no market price for the outpu.t Also, quality improvements would reduce the cost of providing public services relative to the output of private goods and services. Meaning the slopes of the ratio (state and local gross investment + consumption/GDP) in *both current and constant* dollars would be flatter.

Gross investment as a percentage of GDP declined from the peak in 1967, from 2.98 percent when measured in *current* dollars and 3.86 percent in constant 2009 dollars; through the trough in 1983, when the ratio of gross investment to GDP was 1.89 percent in current dollars and 2.16 percent in 2009 dollars. Between 1983 and 2002, the ratio of gross investment to GDP rose to 2.40 percent in current dollars and 2.82 percent in constant 2009 dollars. These trends diverted in 2009, when both were approximately 2.52%. The 1967 to 1983 period, which had a large drop in the ratio of gross investment to GDP, the level of current dollar gross investment did not decline. However, gross investment fell from $363.0 billion in 2009 $338.8 billion in current dollars by 2017.[19]

State and Local Government Gross Investment as a Percent of GDP
1967 - 2017



state and local price deflator for gross investment was 3.9 percent per year and 4.7 per year for adjusted consumption expenditures. *See* NIPA tables 3.10.4 and 1.14

[18] Laurie J. Bates and Rexford E. Santerre, *Does Baumol's Disease Account for Nonfederal Public Sector Cost Growth in the United States: A New Test for an Old Idea,* Social Science Quarterly, Vol. 96, March 2015, at 251-260.

[19] Gross investment data obtained from Table 3.9.5 "Government Consumption Expenditures and Gross Investment" whilst GDP data was obtained from Table 1.1.5 "Gross Domestic Product". US Department of Commerce, Bureau of Economic Analysis. June 2018.

When the trends in the ratio of state and local government consumption of goods and services to GDP are analyzed in current and constant dollars, the effects of relative price changes are readily observable. The data reveals growing costs in the provision of public services in current dollars, but a declining cost when measured in constant dollars. In other words, the assumed absence of productivity increases in the production of state and local public services is inflationary.

Consumption and investment are a subset of all state and local spending. In subsequent sections we examine expenditure by function.

C. *Expenditures by Type*

States and localities are charged with many responsibilities in the US federal system. To deliver these services, states and localities must hire workers, purchase supplies from vendors, invest in infrastructure, pay interest and subsidize specific types of productive activity. States and localities also provide a wide variety of social services to individuals by direct transfers to individuals and subsidies to producers of services.

D. Expenditures by Function

Consumption expenditures have been relatively steady 1967. Consumption accounted for approximately 68.03% of state and local expenditure in 1967 and 68.64% in 2016.[20] While transfer payments accounted for 8.73% in 1967, and accounted for 21.98% in 2016.[21] Conversely, net investment (gross investment less capital consumption allowances) has been on the decline. It accounted for 18.31% of state and local expenditure in 1967, and in 2016 accounted for 3.12%.[22] In 2016, interest payments consisted of 6.27% of total state and local expenditures, compared to 4.93% in 1967.[23]

In this section expenditures are classified by the purposes of that spending. For the ease of exposition, only six categories of spending are examined: (1) education (2) health and income security, (3) economic affairs, housing and community services, and recreation and culture; (4) public order and safety; (5) general public services; and (6) interest payments.

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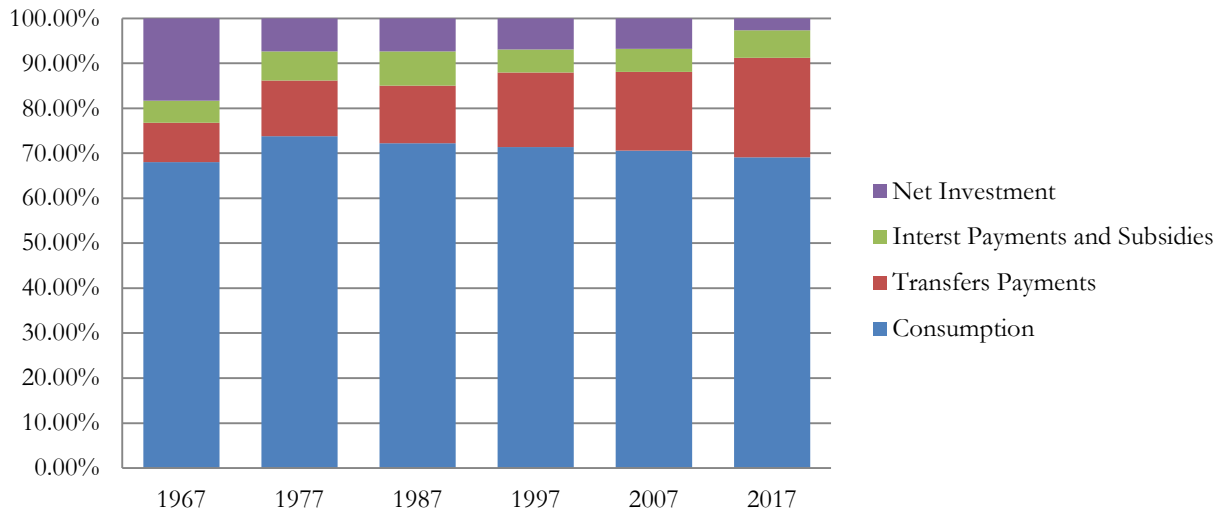
[20] Consists of the state and local consumption expenditures plus sales to other sectors. Table 3.10.5 "Government Consumption Expenditures and General Government Gross Output". US Department of Commerce, Bureau of Economic Analysis. June 2018.

[21] Transfer payments include temporary disability insurance, workmen's compensation, public assistance (primarily MEDICAID) and other programs. Table 3.12 "Government Social Benefits". US Department of Commerce, Bureau of Economic Analysis. August 2017.

[22] Net investment includes gross investment (expenditures for structures and equipment, research and development), net purchases of non-produced assets, and capital transfers, less capital consumption allowances/consumption of fixed capital. From Tables 3.9.5 "Government Consumption Expenditures and Gross Investment" and 3.3 "State and Local Government Current Receipts and Expenditures". US Department of Commerce, Bureau of Economic Analysis. June 2018.

[23] Table 3.3 "State and Local Government Current Receipts and Expenditures". US Department of Commerce, Bureau of Economic Analysis. June 2018.

Composition of State and Local Expenditure by Type
Selected Years

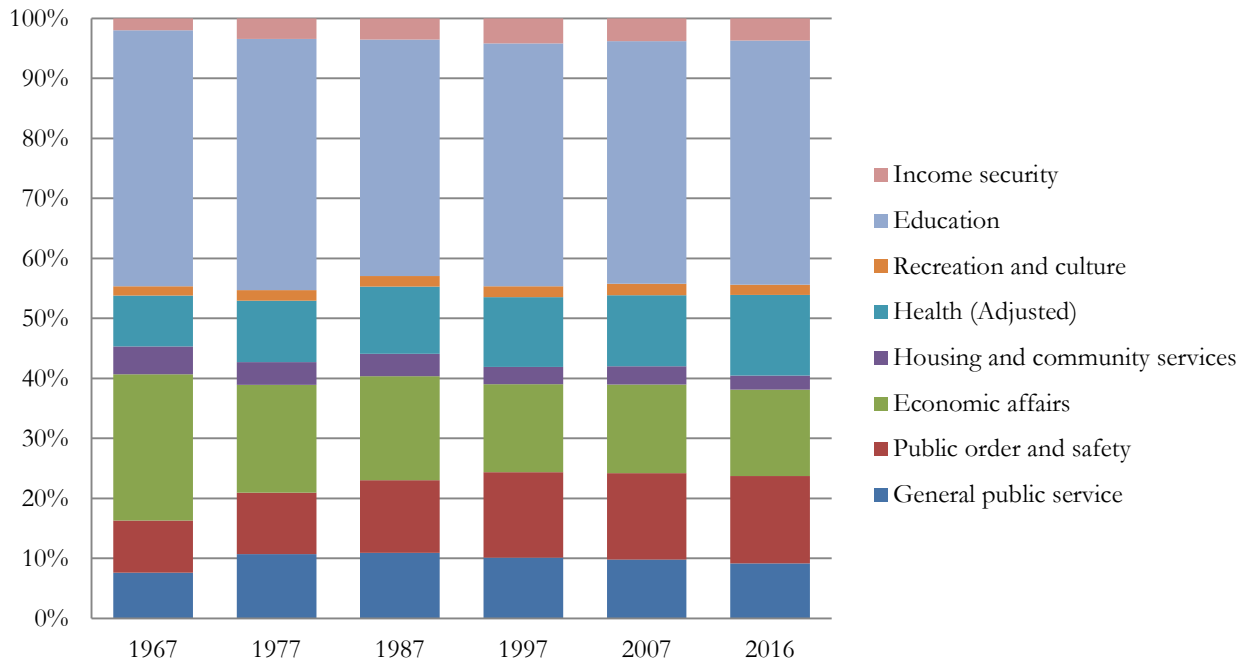


Expenditures for education include elementary, secondary and higher education. Expenditures for economic affairs include highways, transit, railroads, other transportation, agriculture, energy, natural resources, publicly owned liquor stores, state administered lotteries, pari-mutuels and other commercial activities. Expenditures for housing and community services include expenditures for sanitation. Medicaid expenditures account for the bulk of health expenditures. Sales to other sectors were excluded from consumption spending for these functional categories for the sake of consistency with the measure of expenditures in the previous section.

Only a few categories have seen their composition of total state and local gross investment and consumption diminished. State and local expenditure on education as a fraction of state and local consumption and gross investment has rose marginally since 1967. In 1967 it was 43.93%, as of 2016 it was 45.18%. Economic affairs have been reduced as a priority the most out of any of the other categories. In 1967 it was 25.09% of state and local consumption and gross investment, as of 2016 it was 16.00%. Public order and safety has seen a significant jump as a proportion of state and local consumption and gross investment. In 1967 it was approximately 8.97% and by 2016 it had climbed to 16.13%. Public order and safety did not see an increase in prioritization after the September 11, 2001 attacks; the real jump came previously in the late 1970's and 1980's. Health and income security has hardly changed as a proportion of state and local gross investment and consumption as well. In 1967 it was 7.83%; in 2016 it was 8.03%. Housing and community services declined from 4.77% to 2.57% of state and local consumption and gross investment, while recreation and culture has inched up from 1.59% to 1.90%.[24]

[24] Table 3.15.5 "Government Consumption Expenditures and Gross Investment by Function". US Department of Commerce, Bureau of Economic Analysis. October 2017.

Composition of State and Local Expenditures by Major Function
Selected Years, 1967 - 2016



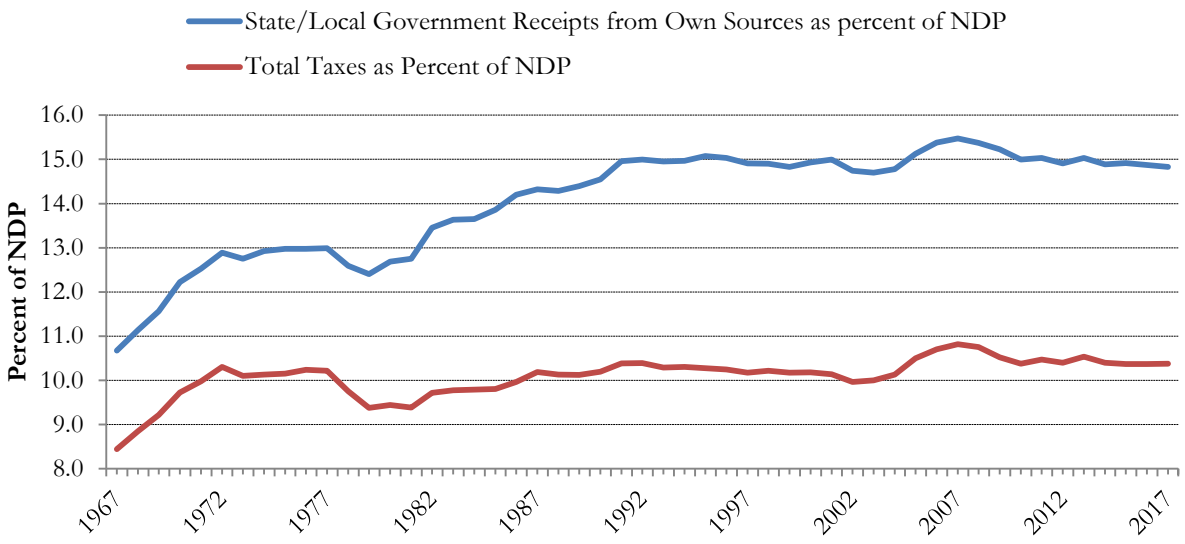
III. Revenues

Most analysts of state and local fiscal affairs focus most of their attention on taxes and/or grants-in-aid from the federal government when analyzing trends in state and local revenues. Indeed, these sources do constitute the major share of state and local government revenues. In addition to these revenue streams, there are other significant revenue sources used by state and local governments, including: business receipts, income receipts on assets, transfers from individuals and businesses, and social insurance revenues. In this article, business receipts consist of sales to other sectors as described in the section on expenditures by type and the current surplus of government enterprises: water and sewerage, gas and electricity, liquor stores, air and water terminals, public transit, lotteries, gaming administered by Native American tribal governments, off-track betting, local parking and miscellaneous activities.

The graph below illustrates the composition of non-tax revenues for state and localities for the past 5 decades. Business receipts have grown significantly as a portion of state and local revenue. In 1967 they made up 11.1% of all state and local revenues. By 2017, they made up approximately 15.8% of state and local revenue. Other sources of non-tax income have changed in importance. In 1967 Federal Grants in Aid (including capital and current grants) (FGA) were approximately 15.7% of total receipts. FGA rose to 22.7% of total receipts in 1978, and bottomed out at 13.9% in 1989, before climbing back to 20.6% in 2017. Income receipts on assets (IRA) ballooned from 9.7% to 22.8% of non-tax revenue (including FGA) between 1972 and 1985. Since then it has fallen 5.9% of

non-tax revenues. Contributions to social insurance programs have also declined as a portion of non-tax revenues, from approximately 2.9% in 1967, to 1.5% is 2017.[25]

Taxes and State and Local Government Revenues from Their Own Sources, as Percent of Net Domestic Product (NDP) 1967 - 2017



Source: US Department of Commerce, Bureau of Economic Analysis

One measure of the resources extracted by state and local governments is the ratio of tax revenues to total own source revenues. Both taxes and own-source revenues, as a percent of NDP, rose sharply between 1967 and 1972, but especially rapidly between 1967 and 1972. Taxes rose from about 8.4 percent of NDP in 1967 to 10.3 percent in 1972. The corresponding rise for own-source revenue was from 10.6 percent in 1967 to 12.9 percent in 1972.[26]

Between 1979 and 1991, tax revenues as a percent of NDP rose from 9.4 percent to 10.4 percent. Own-source revenues as a percent of NDP rose from 12.4 percent to 15.0 percent during the same period. The ratios of tax revenues and own-source revenues to NDP were fairly constant from 1992 to the "bump" between 2007 when both taxes and own-source revenues peaked at 10.8 percent and 15.5 percent respectively. After 2007, taxes as a percent of NDP have fallen to 10.4 percent and own-source revenues have fallen to 14.8 percent by 2017. The Rockefeller Institute attributes the recent relative decline in tax revenues to slow wage growth, lagging employment and diminishing capital gains.[27] Sales tax revenues have also slowed as consumer purchases have fallen.

[25] Table 3.3 "State and Local Government Current Receipts and Expenditures". US Department of Commerce, Bureau of Economic Analysis. June 2018

[26] https://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=88

[27] Lucy Dadayan and Donald J. Boyd, *Slowing Growth in State Tax Revenues,* State Revenue Report, June 2016, No. 103, at 2.

Corporate income tax revenues have also declined. The slow growth in state tax revenues has been offset to some extent by rising property tax revenues.

A. All Revenues

A bird's eye view of state and local revenue illustrates significant changes in state and local finance. In 1967 taxes and social insurance contributions made up 68.6% of all state and local revenues. Since 1992 taxes and social insurance contributions have not made up more than 60.9% of state and local revenue. As of 2017 this category only made up 56.5% of all income. Non-tax revenues excluding Federal Grants in Aid have followed a different trajectory. In 1967 it represented only 15.7% of all state and local income, as of 2017 it represents 23%. In 1997, these revenues had nearly doubled in relative importance for state and local governments by accounting for more than 25% of revenues. Since 1997, however, this ratio has dropped slightly, providing somewhat more than 23 percent of all state and local government revenues.

Business receipts (sales to other sectors plus the surplus of government enterprises) account for the bulk of non-tax revenues, excluding federal grants-in-aid. As noted previously, sales to other sectors consist primarily of hospital room charges and tuition and other charges at state and local institutions of higher learning. These revenues have become increasingly important for state and local governments. The increasing importance of business receipts in state and local budgets. Business receipts have remained relatively stable as a portion of non-tax state and local income. Dipping to low point of 51% in 1986, and rising back to 68.6% in 2017, which is 2% less than in 1967.

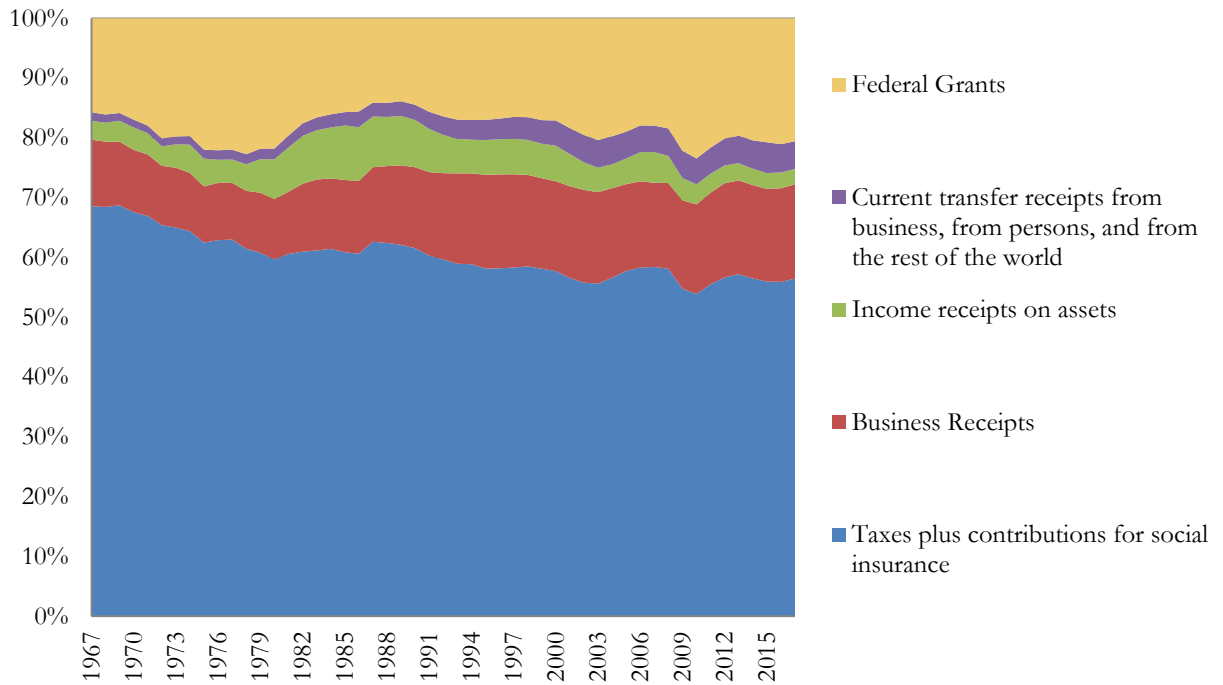
With the adoption of the General Revenue Sharing program in 1972, the ratio of federal grants-in-aid to state and local government revenue rose even faster reaching 22.7 percent of all state and local revenue in 1978. The program was cut back somewhat in 1979 and was ended in 1986. During the 14 years of the program's operation, a total of $85 billion was distributed to states and local governments.[28]

FGA, including capital grants, accounted for less than 14 percent of state and local government revenue in 1989. Between 1992 and 2000, grants-in-aid accounted for approximately 17 percent of state and local government revenues; this proportion ranged from 18.0 to 20.4 percent during the recession in the early 2000s. Grants-in-aid as a proportion of state and local revenues peaked at 23.4 percent in 2010 because of enactment of the American Recovery and Reinvestment Act which expanded many existing grants-in-aid programs as part of the overall stimulus package.

As a result of the enactment of the Elementary and Secondary Education Act (ESEA) which offered new grants to districts serving low-income students, offered federal grants for text and library books, created special education centers, and created scholarships for low-income college students total grants for education accounted for 19 percent of all grants in that year, up from 8.0 percent in the previous year. The sharp increase in grants for general public services in the early

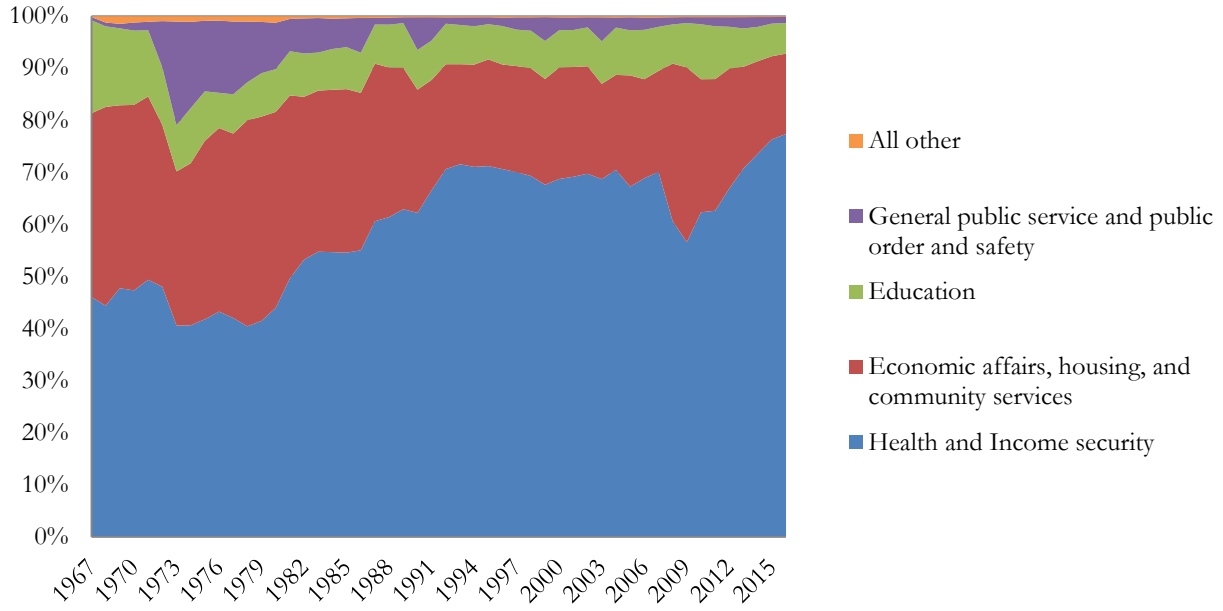
[28] http://www.britannica.com/EBchecked/topic/500387/revenue-sharing.

State and Local Revenues by Major Source
1967 - 2017



1970s is due to the enactment of the general revenue sharing program. Since 1992, federal grants-in-aid for health and income security, as a proportion of all federal grants-in-aid, have ranged between 68 percent and 77.4%, peaking in 2017.

Composition of Federal Grants (Capital and In-Aid) by Major Function
1967 - 2016

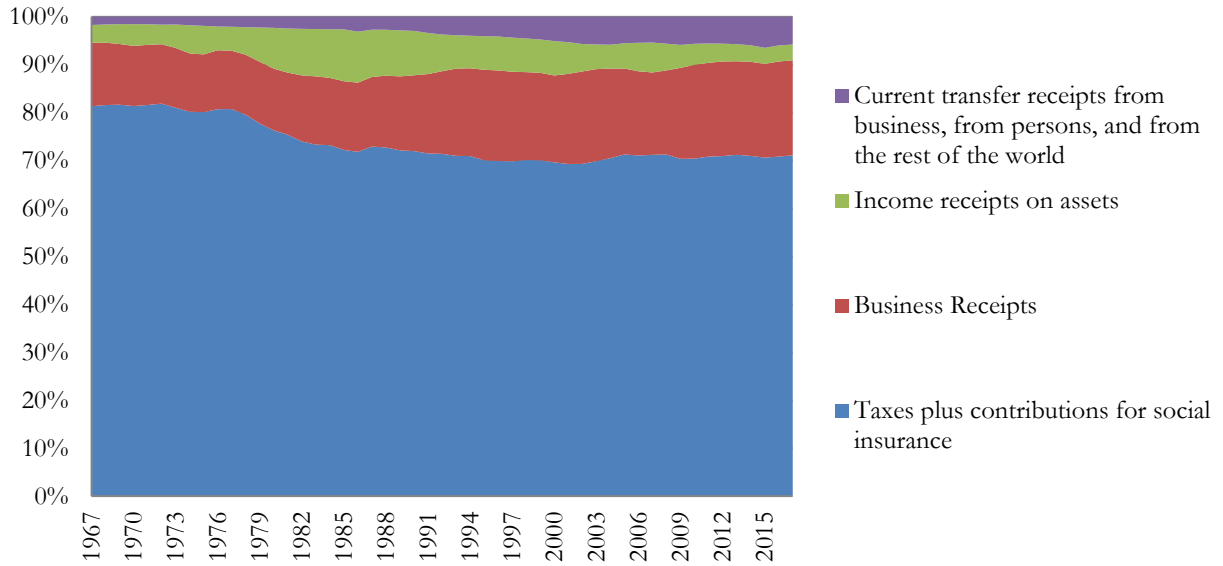


B. Own Source Revenues

Removing federal grants in aid from the analysis of state and local budgets permits a closer examination of state and local revenue raising potential. The exclusion of grants-in-aid from total revenues significantly changes the trends in the sources of revenues for state and local governments.

As the graph below illustrates, tax receipts, which accounted for nearly 81.3% percent of state and local government own-source revenues (SLOSR) in 1967, have been below 70% since 1995, but have since bumped to 71.1% by 2017. Conversely, business receipts, which include sales to other sectors and the surplus of government enterprises, accounted for 13.2% in 1967; by 2017 it has grown to 19.8%. Transfers from individuals and businesses were 2% of SLOSR, and have been above 1.7% since 1967, and climbed to 5.8% in 2017. They have also grown from $1.4 billion dollars in 1967 to $140.8 billion in 2017.

Composition of State and Local Own Source Revenue
1967 - 2017



State and Local governments differ significantly from one another with regard to composition of revenues and the effort they make to raise revenues. The data in APPENDIXES 1 and 2 provide a snapshot of the differences in state revenue structures in fiscal years 1967 and 2015 respectively. Column 1 is general revenues as defined by the Bureau of the Census – total revenues less revenues from liquor stores, utilities, and trust fund revenues (employee retirement, unemployment insurance and other social welfare benefits). Columns 2 and 3 are general revenues per household and as a percentage of state Gross Domestic Product (GDP).[29] The remaining columns contain data on federal grants-in-aid, general revenues from own sources (general revenues

[29] A measurement of a state's output; it is the sum of value added from all industries in the state. GDP by state is the state counterpart to the Nation's gross domestic product (GDP) https://www.bea.gov/glossary/glossary.cfm?key_word=GSP&letter=G#GSP

less federal grants-in-aid), and selected tax revenues, and user charges and miscellaneous general revenues all shown as percentages of general revenues.

The accompanying maps provide a picture of the effort, measured by the ratio of own source general revenue to state GDP for fiscal years 1967 and 2015 respectively. Not surprisingly, states display a wide variation in the effort they make to raise revenues. The variation in effort is related to both the state's ability to raise revenues, as measured by GDP; and, political factors which determine translate the public's demands for public services into the level of revenues raised. Yesim Yilmaz and others, in a report to the Federal Reserve Bank of Boston offer a fuller discussion of the derivation of state and local government revenue effort.30 The degree to which state and local governments have increased their revenue efforts may not be readily apparent from looking at both maps. However, the revenue effort of state and local governments increased significantly from fiscal year 1967 to fiscal year 2015.[31]

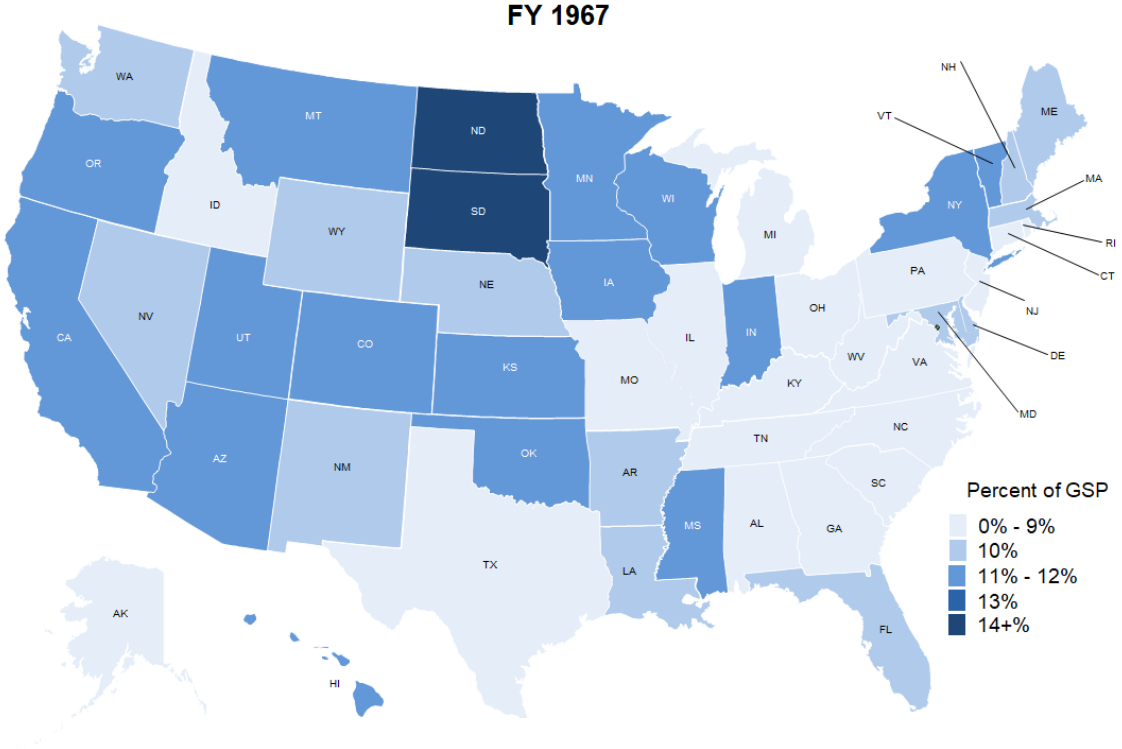
C. Tax Revenues

As with own-source revenues, the composition of state and local tax revenues has changed dramatically over the last 50 years. For example, between 1967 and 2017 (the last year data was available for all major categories) taxes on property fell from 41.6% of state and local tax revenue in 1967 to 30.8% in 2017.[32] A possible explanation for this decline in the importance of property taxes in state and local finances is the adoption of property tax limitations by some state and local governments in the late 1970s. The contributions to state and local tax receipts provided by selected excise taxes such as tobacco and alcoholic beverage taxes, gasoline taxes, and amusement taxes declined, as did the catch all category all other taxes. In contrast to the declining relative importance of other forms of taxation, general sales taxes and individual income taxes have increased significantly in relative importance during the period in question. For example, individual income taxes which accounted for 9.54% of all state and local tax revenue in 1967, has accounted for more than 20% of state and local revenue every year since 1989.

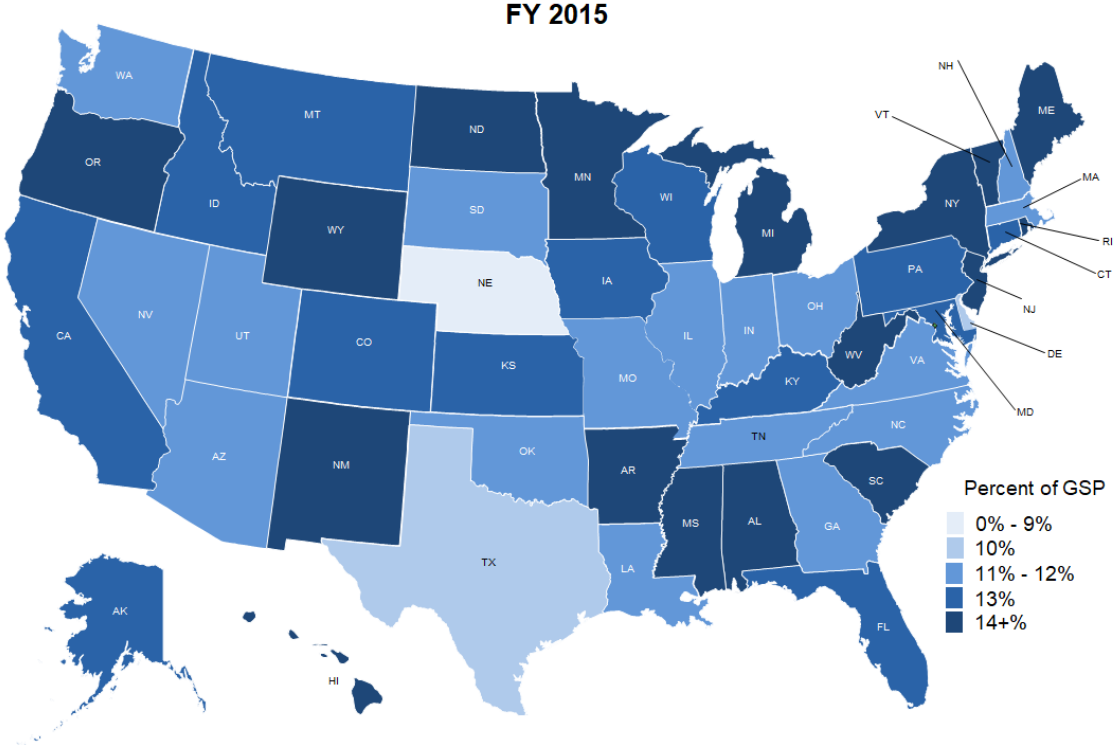
Even though more states have adopted a sales tax since 1967, Professor William Fox has shown that the general sales tax base has been shrinking since the 1990's. Professor Fox attributes the declining tax base to three factors: (1) legislative narrowing of the tax base, (2) growth in the consumption of services, and (3) the rise of remote commerce and the inability of states to apply

30 Yesim Yilmaz, Sonya Hoo, Matthew Nagowski, Kim Rueben, and Robert Tannenwald, "Measuring Fiscal Disparity across the U.S. States: A Representative Revenue System/Representative Expenditure System Approach, Fiscal Year 2002." A Joint Report of the Tax Policy Center and the New England Public Policy Center at the Federal Reserve Bank of Boston, November 2006.
31 The District of Columbia was excluded due to the exceedingly large base (wages and salaries of workers commuting into the city from the outlying suburbs) relative to its population.
32 US Department of Commerce, Bureau of Economic Analysis. June 2018.

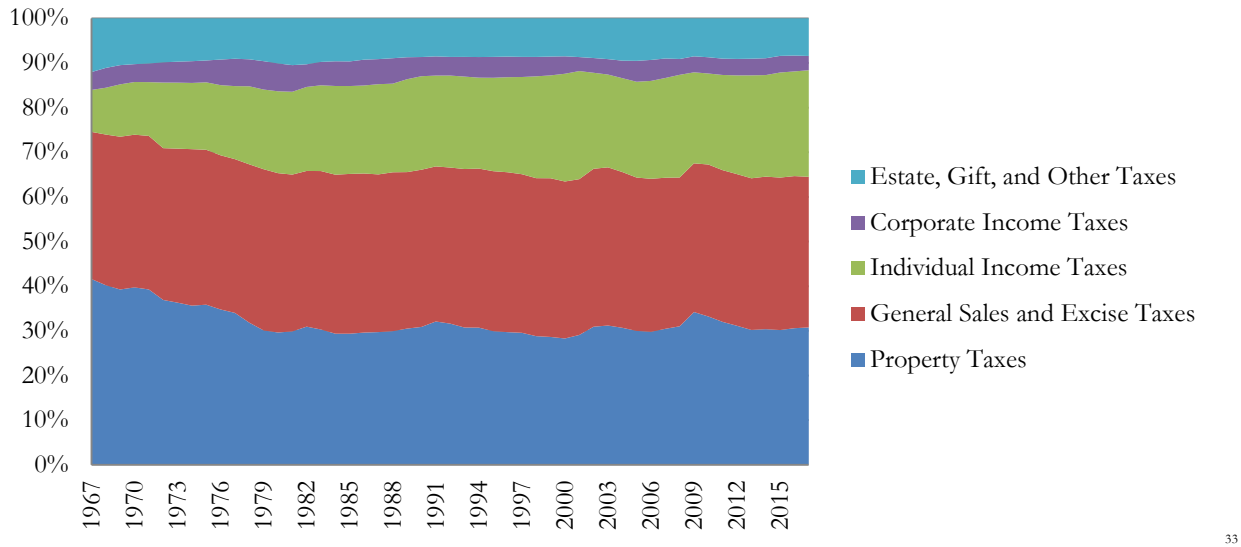
General Revenues from Own Sources as a Percent of Gross State Product (GSP)
FY 1967



General Revenues from Own Sources as a Percent of Gross State Product (GSP)
FY 2015



Composition of State and Local Tax Revenue by Major 1967 - 2017



[33]

their use tax to this form of commerce due to federal law and possibly administrative and political difficulties.[34]

Professor Fox notes that legislatures have been increasing the tax rates in order to keep revenue losses tolerable. However, one possible outcome of the increases in tax rates is the increase in demand for lightly taxed or untaxed goods or services. David Merriman and Mark Skidmore found that about one-eighth of the increase in service sector receipts between 1982 and 1992 were the result of increases in sales tax rates.[35]

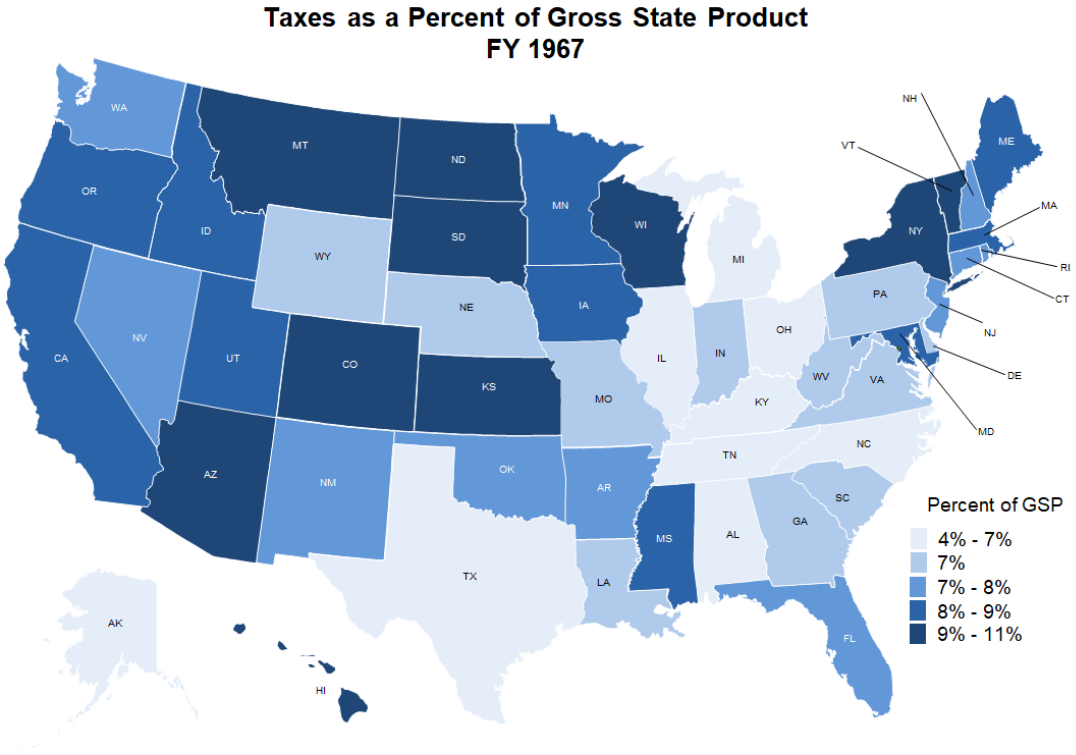
Since 1955, 11 states (Connecticut, Illinois, Indiana, Maine, Michigan, Nebraska, New Jersey, Ohio, Pennsylvania, Rhode Island, and West Virginia) have either adopted or extended (Connecticut) individual income taxes, which explains part of the increase in the relative importance of this revenue source in state and local tax revenues.[36]

Another source of growth of individual income tax revenues for state and local governments is the rise of pass-through business entities, e.g., limited liability partnerships (LLP), limited liability companies (LLC), and Subchapter S Corporations. The income of these entities is characterized as corporate profits although the income is taxed under the individual income tax in states that

[33] US Department of Commerce, Bureau of Economic Analysis. June 2018.
[34] William F. Fox, *Retail Sales and Use Taxation,* The Oxford Handbook of State and Local Government Finance, 2012, Robert D. Ebel and John E. Petersen, editors, at 408-410.
[35] David Merriman and Mark Skidmore, *Did Distortionary Sales Taxation Contribute to the Growth of the Service Sector?* National Tax Journal, Vol. 52, No. 1, March 2000, at 141.
[36] Tax Foundation, *supra* note 33

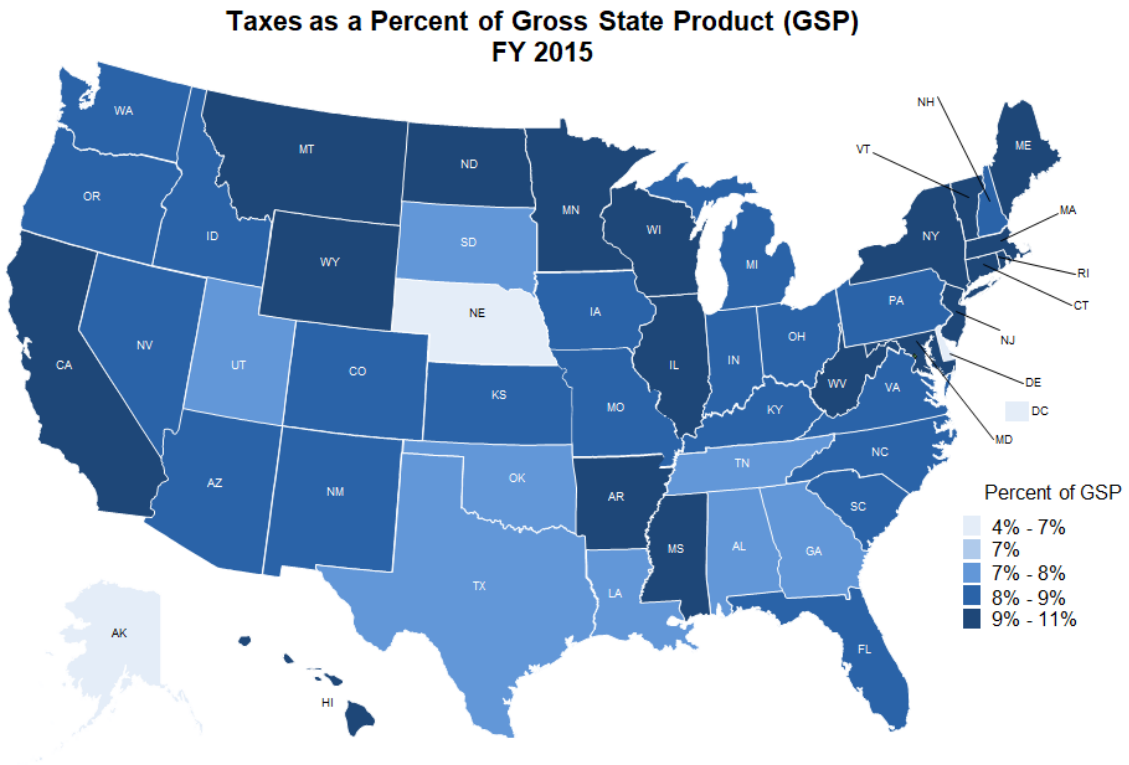
recognize this form of income.[37] Luna and Fox found that income from business entities that are classified as corporations and whose income is taxed at the personal level can explain part of the relative decline in state corporate income taxes.[38]

While the revenue effort of state and local governments rose significantly between fiscal years 1967 and 2015, tax efforts (tax revenues per dollar of GDP) did not exhibit such a significant jump. The accompanying maps present taxes as percent of GDP for 1967 and 2015 respectively. The median tax effort was 7.7 percent (New Hampshire) in 1967 and 8.6 percent in 2015 (Nevada). Tax effort in 1967 ranged from 5.5 in Alaska to 10.5 percent in South Dakota; the corresponding range in 2015 was 4.7 percent in Alaska to 12.1 percent in Vermont. The state by state changes in both revenues per dollar of GDP and tax revenues per dollar of GDP support the findings that state and local governments have been relying relatively more on using user charges and fees and other forms of general revenue to fund their expenditures than on taxes.



[37] See, for example, William F. Fox and LeAnn Luna, *State Corporate Tax Revenue Trends: Causes and Possible Solutions,* National Tax Journal, Volume LV, No. 3, September 2002, at 491-509; and William F. Fox and LeAnn Luna, *Do Limited Liability Companies Explain Declining State Corporate Tax Revenues?* Public Finance Review, Vol. 33, No. 6, at 690-720.

[38] Fox and Luna, *supra* note 37.



IV. Long Term Projections

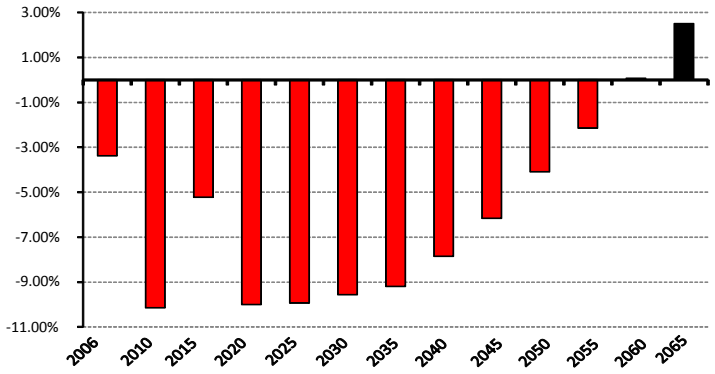
Improvements to state and local balance sheets have come at the cost maintaining infrastructure. Although interest rates have hit historic lows, The Great Recession has forced policy makers to repay past obligations.[39] On top of this, there is growing concern about unmet state pension obligations. The Economist has reported that as of 2012, state pension gaps ranged from 7% in Nebraska to 241% in Illinois.[40] Researchers at the Federal Reserve Bank of Boston are predicting growth in unfunded state pension liabilities for a number of reasons. Specifically, cuts to federal grants in aid to states, and continued below average growth in the national economy.[41] The United States Office of Government Accountability (GAO) has also expressed concern in its "State and Local Government's Fiscal Outlook 2016 Update." According to GAO's simulations of long-term fiscal trends in the state and local government sector that state and local governments face long-term fiscal pressures driven largely by rising costs of Medicaid and the costs of health care compensation for employees and retirees. Absent any policy changes, the state and local government sector faces a gap between expenditures and receipts in future years. Closing this gap will require state and local governments to raise revenues, cut expenditures, or some combination of both, every

[39] William Selway and Brian Chappatta, *Bridges Crumble as Muni Rates at Least Since '60s Ignored,* http://www.businessweek.com/printer/articles/754001?type=bloomberg.
[40] *Retirement Benefits: Who pays the Bill?* The Economist, Volume 408, Number 8846, July 27-August 2, 2013, at 24-26
[41] Bo Zhao and David Coyne, *Walking a Tightrope: Are U.S. State and Local Governments on a Fiscally Sustainable Path?* http://www.bostonfed.org/economic/wp/wp2013/wp1318.htm.

year from now until 2065, equal to 3.3 percent of current expenditures to assure that receipts are at least equal to expenditures.

Operating Balance as Percent of State and Local Expenditures, Excluding Interest

Selected Fiscal Years 2006 - 2065



Source: Government Accountability Office

Their findings show that state real pension asset values increased around 15 percent between 2012 and 2015, from approximately $2.56 trillion in 2012 to $2.93 trillion in 2015. Real pension assets for 2015 now exceed the 2007 historical high of $2.85 trillion. However, the US GAO has reported in past work that while most state and local government pension plans have assets sufficient to cover benefit payments to retirees for a decade or more, plans have experienced a growing gap between assets and liabilities over the longer term.[42] US GAO simulations suggest that state and local governments will have to increase pension contributions or adjust the level of state and local benefits.

As the US population continues to age, there will certainly be more pressure on states and localities to put money towards health care expenses. However, there will also be less pressure on other types of state and local expenditures e.g.) schools, roads and highways, and prisons. This could relieve some of the pressure on state and local budgets. Richard Dye has noted that there will be relatively less need for major investments in education, transportation infrastructure, and prisons as a result of an aging population.[43]

V. Summary and Conclusion

[42] US GAO, *"State and Local Government's Fiscal Outlook 2016 Update"*

[43] Richard Dye, *The Effect of Demographic Change on State and Local Government Budget,* Institute of Government and Public Affairs, Policy Forum, University of Illinois, Volume 20, Number 1, 2007.

The fiscal systems of state and local government have undergone major changes over the past 50 years as a result of changing demographics, costs of providing certain services, and shifting priorities. The composition of state and local spending has changed dramatically, both in terms of the type and the functional breakdown during this period. The most noticeable change in the type of spending has been the growth of spending for social welfare benefits and health which has far outstripped the growth in spending on infrastructure (measured by growth in net investment spending). Consumption spending (labor compensation, purchases of intermediate goods and services, etc.) has remained fairly constant as a proportion of total spending; and, total spending on consumption and gross investment, in current dollars, has outstripped the growth of GDP. However, when both state and local spending on consumption and GDP are deflated by their respective price deflators, a totally different picture emerges – state and local spending, as share of real GDP has generally fallen each year since 1975. This does not imply that state and local governments are economically unimportant. On the contrary, despite the falling share of GDP represented by constant dollar spending on consumption and gross investment, state and local spending account for about 15 percent of U.S. GDP. However, to some observers, the major change in the focus of state and local governments away from investment and toward social welfare benefits has resulted in inadequate roads, bridges, water supply systems, etc.

The most important change in the functional breakdown of state and local spending is the growth of spending on health care, primarily MEDICAID. In 2016, health related spending constituted 13.4 percent of state and local spending; in contrast, health care spending constituted about 8.5 percent of spending in 1967. Conversely, spending for economic affairs – highways, airports, port facilities, etc. accounted for less than one fourth of spending in 1967 but 14.4 percent in 2016. Expenditures for education (elementary, secondary, higher, and libraries), as a proportion of all spending, varied, starting from 42.7% of state and local expenditures in 1967, to a high of 43.2% in 1973, before dropping to a low of 39.1% in 1985, only to rise to 40.7% in 2017.

To some extent, the change in the distribution of state and local spending has been influenced by the changing distribution of federal grants, including current and capital grants, to state and local governments; assuming that state and local governments "follow the money." In 1967, health related and education grants-in-aid comprised about 17% federal grants-in-aid each, with income security comprising 29.3% of federal grants. By the last few years of the period studied, the composition of grants had changed significantly. By 2016, grants for health (primarily MEDICAID) accounted for 62.5% of all FGA, whilst education shrunk to 5.9% and income support dropped to 14.9% of FGA to state and local governments. Grants for economic affairs declined from 31.1% of federal grants-in-aid to approximately 11.7% of grants.[44]

As noted by researchers at the Federal Reserve Bank of Boston and the Government Accountability Office, state and local government will face severe fiscal challenges in the years ahead. To meet these challenges, states and localities are searching for new sources of revenue and

[44] Table 3.17 "Selected Government Current and Capital Expenditures by Function". US Department of Commerce, Bureau of Economic Analysis. October 2017.

provide those services that are valued by taxpayers more efficiently and cut those that are not so valued. In the words of the late Steven Gold, an eminent authority on state and local government finance: "A fiscal crisis is the ideal time for rethinking existing policies and undertaking new initiatives."[45]

The fact that Gold's words were written seventeen years ago underscores the reality that these crises are recurring and the steps taken by state and local governments, while helpful, will not eliminate cyclical fiscal stress. Furthermore, as noted by Dye, it is probably not politically possible for the share of GDP devoted to spending on Social Security, Medicare, Medicaid and social services to increase indefinitely.[46]

[45] Steven D. Gold, "The Fiscal Agenda to the Year 2000," ***The Fiscal Crisis of the States: Lessons for the Future,*** Steven D. Gold, editor. Georgetown University Press, Washington DC, 1995, p.392.
[46] Dye*, op. cit*,

APPENDIX A: Source of Data

The reasons for choosing the NIPA accounts as the primary source of data for this article are: (1) the ease of obtaining the data through the Department of Commerce website[47]; (2) the ability to scale, if necessary, the size of the state and local government sector to the size of the overall economy as represented by GDP; and (3) they are presented on calendar year basis. The major drawbacks to using NIPA accounts are: (1) they are presented on a net basis so that much detail for both expenditures and revenues are lost; and (2) state and/or local level detail is usually not available. However, for the purposes of this article, the aggregate data are sufficient.

A. Definitions:

Most readers, whether they are familiar with the National Income and Products Accounts, will most likely understand the terminology used in this article. There are at least two exceptions to this generalization – consumption expenditures and surplus of government enterprises.

Perhaps the most basic element of state and local expenditures is consumption. On the surface it would appear that this term would not need a detailed explanation. This, however, is not the case because aggregates are presented on a net basis. The value of the output of private sector firms can be measured by the market price of that output. Because the output of government is usually given away, the value of government output is measured by the resources consumed by the public sector. Government consumption expenditures are measured by the value added of the government which consists of compensation of general government employees, consumption of fixed capital (depreciation),[48] and purchases of intermediate goods and services. Sales of goods and services to individuals, businesses, Federal government, and own-account production of structures and software are subtracted.[49] Thus, in the NIPA's government accounts, consumption is recorded on a net basis – expenditures less sales. The reason for excluding sales is to avoid double counting in the construction of gross domestic product (GDP). For example, services produced in the public sector that are purchased by households are recorded as personal consumption expenditures.[50] However, this article is not concerned with constructing GDP accounts but is concerned solely with the state and local government sector, sales to other sectors are excluded from consumption expenditures but included with state and local revenues. This is similar to the treatment of government finances by the Census Bureau.

Sales of goods and services to individuals, businesses, and the Federal government were $466.4 billion in 2016 -- Health and hospital charges of $217.0 billion and tuition and education

[47] See: http://www.bea.gov/itable/

[48] Consumption of fixed capital is an estimate of the value of capital used to produce the output.

[49] An example of own-account production of structures is government employees build an addition to a public building.

[50] Bruce E. Baker and Pamela A. Kelly, "A Primer on BEA's Government Accounts," ***Survey of Current Business***, U.S. Bureau of Economic Analysis, March 2008, p. 29.

charges of $103.6; All Other Sales to Other Sectors was$145.8 billion. The definition of consumption expenditures excludes current transactions of government enterprises, interest paid or received by government, and subsidies.[51]

Government enterprises are agencies that cover a substantial portion of their operating costs by selling goods and services to the public and that maintain their own separate accounts.52 The net revenues less costs are classified as current receipts in the NIPA despite the fact that, in the aggregate, costs have exceeded revenues since 1978. The major enterprises include: water and sewerage, gas and electricity, toll facilities, liquor stores, air and water terminals, housing and urban renewal, public transit, lotteries, gaming administered Native American tribal governments, off-track betting, local parking, and miscellaneous activities. With the exceptions of public transportation and housing and urban renewal enterprises, state and locally run enterprises generated small surpluses in 2012.

[51] http://www.bea.gov/glossary/glossary.cfm?letter=G

[52] ***Ibid***.

APPENDIX TABLE 1: State and Local Government General Revenue by Major Type, Fiscal Year 1967

State	General Revenue (millions)	General Revenue per Household	General Revenue as Percent of State Gross Domestic Product	Intergov-ernmental Revenues	General Own Source Revenues	Total Taxes	Property Taxes	Total Sales and Gross Receipts Taxes	Total General Sales and Gross Receipts Taxes	Total Selective Sales and Excise Taxes	Total License Taxes	Individual Income Tax	Corpo-rate Net Income Tax	Estate and Gift Tax	Other Taxes n.e.c.	Total General Charges	Total Miscellan-eous General Revenue
				(As percent of general revenues)													
Total US	$91,196.8	$1,547	11.55%	16.9%	83.1%	66.9%	28.6%	22.5%	11.1%	11.4%	3.5%	6.4%	2.4%	0.9%	6.1%	11.5%	4.8%
Alabama	1,242.7	1,258	12.49	24.6	75.4	54.5	9.7	31.9	16.5	15.5	2.2	4.9	2.4	0.2	5.5	16.6	4.3
Alaska	290.3	4,366	18.51	51.8	48.2	29.6	7.3	7.4	1.7	5.6	1.8	7.8	1.2	0.0	5.9	9.0	9.6
Arizona	847.4	1,763	14.98	21.6	78.4	61.8	28.1	25.1	15.0	10.0	2.4	3.1	1.7	0.2	3.6	11.5	5.0
Arkansas	691.3	1,179	13.83	27.8	72.2	56.8	14.8	27.2	12.8	14.3	4.1	4.5	3.6	0.1	6.6	12.7	2.7
California	11,739.1	1,894	13.48	19.0	81.0	66.3	34.1	19.9	11.9	8.0	2.0	4.3	3.9	1.0	3.2	8.9	5.7
Colorado	1,068.7	1,739	14.31	18.7	81.3	63.4	29.1	19.8	11.2	8.6	2.3	7.3	2.4	0.9	3.9	13.3	4.6
Connecticut	1,332.2	1,548	10.09	13.5	86.5	73.8	38.4	23.4	10.9	12.4	2.6	0.0	6.0	2.8	3.2	8.6	4.1
Delaware	283.8	1,934	11.16	13.4	86.6	62.6	12.4	11.7	0.0	11.7	9.4	19.1	4.5	2.3	12.5	14.7	9.3
District of Columbia	460.9	1,759	6.76	31.8	68.2	59.7	20.2	20.9	9.4	11.5	1.7	13.9	0.0	0.0	4.6	6.5	2.1
Florida	2,506.5	1,283	12.44	14.9	85.1	64.8	26.1	29.3	12.0	17.3	4.5	0.0	0.0	0.4	8.9	15.5	4.8
Georgia	1,707.4	1,370	11.97	21.0	79.0	60.0	18.8	27.8	14.2	13.7	1.8	5.9	3.8	0.2	3.5	14.6	4.3
Hawaii	475.3	2,688	14.81	23.2	76.8	63.2	12.8	31.4	21.9	9.5	2.0	13.4	2.2	0.3	3.1	8.3	5.3
Idaho	325.4	1,540	14.12	18.8	81.2	63.0	23.2	19.8	10.1	9.8	4.3	9.6	2.9	0.6	6.9	13.2	5.0
Illinois	4,471.6	1,368	8.66	13.5	86.5	72.7	35.5	30.3	17.7	12.6	4.4	0.0	0.0	1.1	5.8	9.9	3.8
Indiana	2,117.9	1,428	10.33	12.3	87.7	69.5	33.6	23.8	14.2	9.6	2.7	7.5	0.7	0.6	3.2	15.4	2.8
Iowa	1,351.3	1,598	12.98	15.0	85.0	68.0	34.3	18.1	8.4	9.7	5.1	7.9	0.9	0.9	6.0	12.6	4.5
Kansas	1,064.1	1,511	14.04	14.9	85.1	67.4	33.9	19.7	11.1	8.6	3.1	6.7	2.2	0.6	4.3	13.3	4.4
Kentucky	1,223.0	1,342	11.42	27.0	73.0	55.1	14.9	23.2	11.1	12.1	2.0	9.8	3.3	0.7	3.2	13.1	4.8
Louisiana	1,648.2	1,632	12.30	21.2	78.8	58.2	11.9	23.9	12.4	11.5	2.4	2.2	2.1	0.3	17.7	9.6	11.0
Maine	373.5	1,312	12.14	19.2	80.8	67.8	32.9	28.3	14.6	13.7	3.6	0.0	0.0	1.3	5.3	9.6	3.4
Maryland	1,622.4	1,595	11.64	12.8	87.2	72.3	29.8	21.5	8.4	13.2	2.4	13.3	2.2	1.1	4.3	10.1	4.9
Massachusetts	2,676.2	1,673	11.86	14.0	86.0	74.9	38.8	15.6	4.8	10.8	5.5	10.0	2.1	1.4	6.9	8.7	2.5
Michigan	4,052.5	1,667	10.22	14.6	85.4	67.0	29.4	26.1	16.8	9.4	5.5	1.5	0.0	0.5	9.5	13.0	5.4
Minnesota	1,913.7	1,824	13.49	16.4	83.6	65.7	32.6	10.4	0.0	10.4	3.0	13.0	3.6	0.7	5.4	11.0	7.0
Mississippi	830.3	1,340	15.14	25.4	74.6	55.6	15.4	30.7	17.2	13.5	3.0	1.3	2.0	0.2	6.0	16.1	2.9
Missouri	1,814.0	1,273	10.46	18.5	81.5	66.1	27.0	24.1	14.1	10.0	4.2	7.4	0.8	0.5	6.1	11.2	4.2
Montana	361.6	1,680	15.35	24.7	75.3	58.9	33.0	10.4	0.0	10.4	3.1	6.7	2.1	0.8	5.9	10.0	6.4
Nebraska	635.4	1,421	11.89	18.4	81.6	61.3	44.3	12.3	0.0	12.3	2.7	0.0	0.0	0.1	4.6	13.0	7.3
Nevada	293.9	1,950	13.42	24.0	76.0	56.5	22.6	24.2	8.0	16.3	3.3	0.0	0.0	0.0	9.7	14.5	4.9
New Hampshire	260.2	1,270	11.46	16.9	83.1	68.0	43.1	15.7	0.0	15.7	4.5	1.0	0.0	1.3	6.8	11.8	3.3
New Jersey	2,990.0	1,453	9.97	11.2	88.8	74.9	42.7	22.1	7.0	15.2	4.8	0.4	1.6	1.8	6.3	10.6	3.3
New Mexico	564.5	2,036	16.21	30.1	69.9	48.1	10.8	23.5	13.9	9.7	3.5	2.1	1.1	0.2	10.4	11.0	10.7
New York	11,277.2	1,973	12.63	11.1	88.9	74.7	29.4	19.1	9.6	9.6	2.5	16.5	3.9	1.0	4.7	10.8	3.3
North Carolina	1,717.1	1,243	10.37	18.2	81.8	65.8	17.4	25.6	11.7	13.8	3.5	11.0	5.7	0.8	5.3	12.2	3.8
North Dakota	352.2	1,938	18.94	19.8	80.2	50.6	25.8	14.5	6.7	7.7	3.4	3.1	0.9	0.1	6.1	21.7	7.9
Ohio	3,917.0	1,280	9.00	14.4	85.6	66.7	34.5	22.3	9.4	12.9	5.2	3.0	0.0	0.4	6.4	13.6	5.3
Oklahoma	1,141.5	1,429	14.68	24.9	75.1	55.1	18.1	21.0	7.7	13.3	5.2	2.8	1.9	1.2	10.1	15.5	4.4
Oregon	1,035.5	1,604	13.89	19.3	80.7	61.0	28.9	7.9	0.0	7.9	3.7	14.8	3.1	0.8	5.5	12.5	7.2
Pennsylvania	4,526.5	1,310	1.33	14.6	85.4	71.6	24.1	26.5	14.1	12.4	0.8	3.4	0.7	0.2	16.8	1.4	0.7
Rhode Island	387.6	1,447	10.92	19.7	80.3	68.9	31.4	26.9	12.6	14.2	3.2	0.0	4.5	1.5	4.6	8.6	2.9
South Carolina	811.1	1,186	11.33	19.2	80.8	63.0	13.4	31.7	14.0	17.7	2.2	7.7	5.3	0.3	4.5	14.8	3.1
South Dakota	335.7	1,713	17.31	21.7	78.3	60.9	34.1	20.2	9.2	11.0	4.5	0.0	0.2	0.5	5.8	12.7	4.7
Tennessee	1,378.3	1,217	11.22	23.8	76.2	59.5	17.4	30.2	16.2	14.0	4.6	0.7	3.1	0.8	7.3	12.4	4.2
Texas	3,993.7	1,247	10.42	18.0	82.0	61.9	28.1	21.2	6.5	14.7	5.5	0.0	0.0	0.7	11.9	13.0	7.1
Utah	513.5	1,785	14.89	25.9	74.1	58.4	24.1	20.1	12.4	7.8	1.8	7.8	2.1	0.5	3.7	11.6	4.2
Vermont	211.1	1,809	14.36	25.0	75.0	63.4	25.4	15.6	0.0	15.6	5.0	11.9	2.3	1.0	7.2	8.2	3.5
Virginia	1,628.0	1,302	10.56	18.5	81.5	65.8	19.8	22.9	8.1	14.8	4.2	11.8	3.0	0.5	7.7	12.1	3.6
Washington	1,738.0	1,811	11.61	16.9	83.1	63.8	19.6	38.4	24.5	13.9	2.6	0.0	0.0	1.3	4.5	12.4	6.9
West Virginia	687.9	1,316	12.07	27.0	73.0	58.2	15.5	32.0	18.5	13.5	3.8	3.9	0.0	0.6	6.1	12.1	2.7
Wisconsin	2,080.5	1,718	12.62	12.3	87.7	72.9	30.4	14.6	4.7	9.9	3.0	17.7	4.9	1.1	4.2	9.9	4.9
Wyoming	229.3	2,260	15.03	31.4	68.6	48.1	26.3	15.5	8.5	7.0	3.7	0.0	0.0	0.2	6.1	11.9	8.5

Source: U.S. Bureau of the Census. Government Finances Database, December 14, 2011.

APPENDIX TABLE 2: State and Local Government General Revenue by Major Type, Fiscal Year 2015

State	General Revenue (millions)	General Revenue per Household	General Revenue as Percent of State Gross Domestic Product	Intergov-ernmental Revenues	General Own Source Revenues	Total Taxes	Property Taxes	Total Sales and Gross Receipts Taxes	Total General Sales and Gross Receipts Taxes	Total Selective Sales and Excise Taxes	Individual Income Tax	Corpo-rate Net Income Tax	Other Taxes n.e.c.	Total General Charges	Total Miscellan-eous General Revenue
				(As percent of general revenues)											
Total US	$2,920,125	$24,974	16.54%	22.5%	77.5%	53.7%	16.7%	18.7%	12.6%	6.0%	12.6%	2.0%	2.8%	16.4%	7.4%
Alabama	36,698	19,855	18.64	26.0	74.0	41.6	7.1	20.1	12.4	7.7	9.4	1.5	2.9	26.0	6.3
Alaska	10,338	41,190	18.69	28.4	71.6	25.0	14.3	5.7	2.2	3.4	0.0	2.2	2.0	15.3	31.3
Arizona	46,598	19,318	16.23	28.6	71.4	51.0	15.2	24.4	19.9	4.4	8.1	1.5	1.4	14.0	6.4
Arkansas	23,630	20,764	19.94	30.7	69.3	48.8	8.8	24.2	18.1	6.1	11.3	2.0	1.8	14.2	6.3
California	419,015	32,947	17.21	22.3	77.7	54.6	13.6	16.6	11.9	4.7	18.6	2.1	2.7	17.5	5.6
Colorado	49,769	24,584	16.03	18.1	81.9	50.3	15.2	18.0	13.2	4.8	12.8	1.4	1.9	23.5	8.1
Connecticut	39,241	29,012	15.76	19.0	81.0	67.8	26.0	16.7	10.4	6.3	20.9	1.8	1.9	8.2	5.0
Delaware	9,164	26,637	13.46	21.5	78.5	49.1	8.8	5.6	0.0	5.6	13.1	4.4	16.6	16.8	12.6
District of Columbia	13,121	47,995	11.02	32.1	67.9	54.2	17.2	13.4	10.0	3.3	14.2	3.4	5.7	6.0	7.7
Florida	143,953	19,718	16.69	20.8	79.2	48.6	17.4	25.1	16.6	8.5	0.0	1.6	3.6	20.7	9.9
Georgia	67,201	18,801	13.65	21.9	78.1	53.4	17.1	18.9	13.7	5.2	14.4	1.5	1.1	18.1	6.6
Hawaii	15,148	33,619	19.06	20.1	79.9	57.5	10.1	30.0	21.2	8.7	13.1	0.5	1.4	15.8	6.6
Idaho	11,258	19,103	17.46	24.1	75.9	50.5	14.2	17.6	13.0	4.6	13.1	1.9	2.3	19.0	6.5
Illinois	117,150	24,476	15.32	19.2	80.8	63.0	22.9	19.6	11.1	8.5	13.6	3.5	1.9	11.3	6.5
Indiana	51,767	20,691	15.70	23.1	76.9	49.0	12.5	20.8	14.1	6.8	12.5	1.7	1.0	21.0	6.8
Iowa	30,552	24,710	17.36	23.0	77.0	48.6	16.0	15.9	11.0	4.9	11.7	1.5	1.5	22.1	6.3
Kansas	24,418	21,929	16.28	17.0	83.0	52.3	17.2	21.3	16.5	4.9	9.3	1.9	1.6	22.5	8.2
Kentucky	35,160	20,579	18.67	31.4	68.6	47.6	9.8	17.5	9.3	8.2	15.3	2.6	1.8	16.3	4.7
Louisiana	37,866	21,914	15.59	28.4	71.6	48.7	10.7	26.0	18.8	7.2	7.9	0.7	3.3	14.7	8.2
Maine	11,540	20,857	20.48	25.0	75.0	58.8	23.7	17.4	11.1	6.3	13.3	1.5	2.1	10.8	5.3
Maryland	59,314	27,379	16.56	22.3	77.7	59.2	15.8	15.7	7.4	8.3	22.3	1.7	3.0	12.0	6.5
Massachusetts	72,632	28,486	15.29	21.9	78.1	59.3	21.1	11.9	8.0	3.9	20.0	3.1	2.7	10.8	8.0
Michigan	83,940	21,853	18.34	26.2	73.8	47.4	16.3	16.0	11.0	5.0	11.1	1.4	1.4	19.2	7.2
Minnesota	56,604	26,640	17.58	21.0	79.0	57.7	14.9	18.2	10.0	8.2	18.3	2.6	2.4	14.1	7.3
Mississippi	25,736	23,469	24.42	31.8	68.2	42.7	11.3	19.4	13.3	6.1	6.9	2.1	2.4	22.0	3.6
Missouri	44,451	18,798	15.48	25.3	74.7	49.9	13.6	18.5	13.2	5.3	14.0	1.1	2.0	16.3	8.6
Montana	8,701	21,254	19.06	30.8	69.2	48.0	17.9	7.0	0.0	7.0	13.6	1.9	5.7	13.7	7.6
Nebraska	17,175	23,316	15.05	19.5	80.5	55.8	20.9	16.1	12.6	3.6	13.0	2.0	2.5	17.3	7.4
Nevada	20,910	20,566	15.20	21.7	78.3	56.7	13.3	35.6	22.5	13.1	0.0	0.0	7.0	15.2	6.4
New Hampshire	10,661	20,492	14.56	20.1	79.9	58.0	38.1	9.1	0.0	9.1	0.9	5.4	3.3	12.5	9.4
New Jersey	95,602	29,974	17.28	19.2	80.8	62.4	28.8	13.7	9.6	4.2	13.9	2.7	2.7	11.6	6.8
New Mexico	21,546	28,216	22.97	33.4	66.6	40.2	7.5	18.9	15.0	3.9	6.4	1.2	5.3	12.0	14.4
New York	286,310	39,424	20.09	20.4	79.6	60.3	18.6	14.7	10.1	4.6	19.3	4.2	2.9	10.5	8.8
North Carolina	77,901	20,633	15.94	23.4	76.6	48.8	12.3	17.7	12.1	5.5	14.4	1.7	1.9	21.8	6.0
North Dakota	11,077	36,968	19.14	17.0	83.0	62.7	8.3	19.7	14.5	5.2	4.8	1.7	27.0	11.4	8.9
Ohio	100,905	22,007	16.72	25.3	74.7	50.8	14.6	19.5	14.0	5.5	13.7	0.3	1.9	16.7	7.3
Oklahoma	30,209	20,758	15.56	24.7	75.3	47.9	8.8	21.3	15.8	5.5	10.8	1.3	3.3	17.1	10.3
Oregon	40,297	26,279	19.28	29.5	70.5	43.6	14.0	4.9	0.0	4.9	18.1	1.7	3.4	19.5	7.4
Pennsylvania	114,163	23,022	16.36	22.1	77.9	55.5	16.6	17.4	9.4	8.0	14.3	2.6	3.8	15.9	6.5
Rhode Island	10,541	25,673	19.18	24.3	75.7	54.3	23.4	15.6	9.1	6.5	11.5	1.7	1.5	11.5	9.9
South Carolina	39,109	21,547	19.85	21.3	78.7	42.9	14.1	14.6	10.3	4.2	9.6	1.0	2.9	28.1	7.7
South Dakota	6,562	19,833	14.13	25.4	74.6	50.2	18.1	26.9	20.3	6.6	0.0	0.1	3.7	13.1	11.4
Tennessee	44,021	17,577	14.29	25.5	74.5	49.0	12.9	27.2	19.9	7.3	0.7	3.2	4.0	17.7	7.8
Texas	209,742	22,925	13.01	21.7	78.3	54.0	22.7	27.3	19.6	7.7	0.0	0.0	2.9	16.4	8.0
Utah	22,432	24,751	15.44	20.8	79.2	48.4	13.0	17.1	11.8	5.4	14.1	1.6	1.7	23.2	7.6
Vermont	6,997	27,207	23.43	31.0	69.0	51.9	22.7	15.0	5.4	9.6	10.1	1.6	1.4	11.3	5.8
Virginia	68,585	22,393	14.61	16.5	83.5	54.5	18.6	13.5	7.4	6.1	17.4	1.2	2.9	21.1	7.9
Washington	66,740	25,007	15.16	21.9	78.1	51.2	15.1	31.2	23.5	7.7	0.0	0.0	3.9	20.7	6.2
West Virginia	16,407	22,144	22.43	29.1	70.9	46.1	10.0	16.8	8.0	8.8	11.8	1.2	6.3	15.8	9.1
Wisconsin	48,253	20,988	16.22	20.3	79.7	55.8	19.3	16.9	10.9	5.9	14.7	2.1	1.8	15.9	8.0
Wyoming	9,016	39,740	22.26	23.9	76.1	41.6	15.3	14.1	11.6	2.5	0.0	0.0	11.1	18.1	16.4

Source: U.S. Bureau of the Census.