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TRENDS IN LOCAL GOVERNMENT REVENUE COMPOSITION IN  
THE NORTHEAST: 1957-1977

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## ABSTRACT

The composition of revenues in general purpose local governments in the Northeast in 1977 is examined and compared with the pattern found in 1957. The composition of local government revenues varies between types of local governments and between states. In general, local governments in the New England states are most dependent on property taxes. This pattern has not changed greatly since 1957 despite increases in the importance of intergovernmental aid. Revenue composition in many states in the Northeast diverges considerably from the nationwide pattern. Changing attitudes towards government and taxes could result in substantial changes in the years ahead.

## INTRODUCTION

During the period 1957 to 1977, revenues of general purpose local governments--counties, municipalities, and townships--increased from \$19.0 billion to \$122.9 billion. Even when these figures are adjusted to account for inflation, there was significant growth. In real terms, revenues more than doubled, from \$36.4 billion to \$83.6 billion in 1972 dollars. Underlying the sheer growth in government revenues were some significant shifts in the way in which local governments raise money.

The purpose of this paper is to examine trends in revenue composition in local general purpose governments in the Northeast, and to compare these trends to the nationwide trends. Changes in revenue composition and differences between states are discussed in relation to a variety of institutional and political factors. Such an analysis should be useful to those with an interest in local public finance in general and to those concerned with the financial condition of, and prospects for, local governments in the Northeast in particular.

## LOCAL GOVERNMENT REVENUE COMPOSITION

The composition of county revenues in 1957 and 1977 is shown in Table 1 for each Northeastern state. In 1957, the most important sources of intergovernmental aid was the state. This figure includes both federal revenues passed through the state, and direct state aid. Between 1957 and 1977 the importance of aid increased in

relative terms in all the states except Delaware and Vermont. By 1977, federal aid was more important than state aid in these states and in West Virginia. Despite increases in state aid, both in relative and absolute terms, only in New York was the percentage of state aid considerably higher than in the U.S. as a whole. In Maryland, New Jersey, and Virginia the importance of state aid was about the same as in counties as a whole.

The composition of own source revenues also varied considerably. In 1957, counties in all the states except Maryland and Virginia relied on property taxes more than did counties nationwide. By 1977, dependence on the property tax had decreased considerably in all states, except Maine and Massachusetts. Despite large decreases in the importance of property taxes, however, they were used less than the national average only in Delaware, Maryland, and New York. In these states intergovernmental revenue was relatively important, as were alternative sources of local revenue. Counties in Delaware made considerable use of current charges in both 1957 and 1977, while counties in New York and Maryland greatly increased the use of sales taxes and income taxes, respectively. In addition, Maryland counties raise revenue from county-owned liquor stores, a unique situation. Also of interest in Table 1 is the heavy use of current charges in New Hampshire, where they accounted for over one quarter of all county revenue. This is due primarily to the receipt of federal funds, via the state, in the form of user charges for county nursing homes. Counties in Massachusetts also used current charges to a fair extent; these charges accounted for over 13 percent of revenues.

In general, although the importance of property taxes declined, the use of alternate revenue sources did not necessarily increase. Nor was increased state aid necessarily the case. One or the other increased, however, except in Delaware, where not only state aid but also major sources of own source revenue decreased in importance, while federal aid took an extraordinary jump.

Revenue composition in municipalities of the Northeast, by state, in 1957-1977 is shown in Table 2. In seven states the importance of state aid (including federal pass-through aid) was below the nationwide figure in 1957. Although state aid increased in absolute terms in all states and in relative importance in all states except Delaware and Vermont, the importance of state aid was below the nationwide figure in six states in 1977. The position of many of the states relative to the nationwide figure shifted, however. The position of municipalities in Delaware, Maine, and New Jersey reversed relative to the nationwide pattern, while the position of

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Table 1--Revenue composition in counties of the Northeast: 1957 and 1977

State	Total revenues		Source of revenue																																		
			Intergovernmental revenue								Own source revenue																										
			From federal: government		From state: government		From local: governments		Property taxes	Other taxes 1/	Current charges 2/	Utility charges	All other																								
			1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977																					
Millions of dollars																			Percent																		
Connecticut	2.66	-	0	-	26.8	-	0.7	-	71.4	-	0	-	0.1	-	0	-	1.0	-																			
Delaware	6.07	77.89	1.2	43.6	8.2	5.3	*3/	1.5	57.5	23.4	0.2	1.3	27.2	21.6	0	0	5.7	3.3																			
Maine	4.35	18.24	0.2	12.4	9.9	16.9	0.2	1.8	62.2	58.6	*	0.2	5.3	7.7	0	*	22.2	2.4																			
Maryland	218.17	2,515.39	4.2	5.9	34.5	32.5	0.1	0.1	41.5	29.9	3.8	17.6	5.1	7.4	0	2.6	10.8	4.0																			
Massachusetts	34.01	172.58	0.5	5.7	1.4	4.5	14.7	1.2	59.1	57.7	1.3	0.7	9.5	13.5	0	0	13.5	16.7																			
New Hampshire	4.99	42.87	0	4.2	4.5	25.6	0	0.3	68.0	40.9	*	0	25.7	27.0	0	*	1.8	2.0																			
New Jersey	171.83	1,589.35	*	11.2	19.7	33.3	1.0	0.4	67.9	44.3	0.3	0.4	8.5	8.4	0	0	2.6	2.0																			
New York	421.40	4,493.69	*	5.6	32.4	41.7	0.9	1.9	49.4	22.7	7.3	17.2	7.3	6.7	1.4	1.2	1.3	3.0																			
Pennsylvania	140.68	975.17	*	16.9	12.4	28.9	2.7	0.6	67.7	34.4	0.6	0.9	10.8	10.2	1.7	*	4.1	8.1																			
Rhode Island	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-																			
Vermont	0.18	0.98	0	18.6	5.6	4.3	1.1	0	88.3	74.1	0	0	2.8	1.0	0	0	2.2	2.0																			
Virginia	167.46	1,678.85	4.1	8.1	39.8	33.8	0.9	1.6	40.2	33.8	2.9	10.7	8.4	5.9	1.2	2.4	2.5	3.7																			
West Virginia	19.91	112.36	0.8	19.6	4.3	16.3	*	0.9	72.3	37.4	0.9	0.9	13.6	15.9	0	0.1	8.1	8.9																			
All counties, U.S.	5,743.29	42,558.70	0.7	8.8	35.1	33.7	1.2	1.7	45.5	30.3	3.1	7.0	9.1	11.9	0.3	1.1	5.0	5.5																			

1/ Includes sales and income taxes, death and gift taxes and licenses.

2/ Current charge categories include education, hospitals, natural resources, sewerage, housing and urban renewal, airports, water transport and terminals, sanitation other than sewerage, local parks and recreation, and parking facilities.

3/ \*\* indicates less than 0.1.

Source: U.S. Department of Commerce, Bureau of the Census. Census of Governments. Governmental Finances, No. 5: Compendium of Government Finances. Washington, July 1959 and August 1979.



Table 2--Revenue composition in municipalities of the Northeast: 1957 and 1977

State	Total revenues		Source of revenue															
			Intergovernmental revenue								Own source revenue							
			From federal government		From state government		From local governments		Property taxes		Other taxes 1/		Current charges 2/		Utility charges		All other	
	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977
	Millions of dollars		Percent															
Connecticut	159.96	1,051.93	1.0	15.2	9.0	19.5	1.3	0.4	72.6	51.5	1.2	0.4	4.3	4.2	6.4	3.8	4.2	5.0
Delaware	21.70	142.34	0	17.7	22.2	14.3	0.3	0.3	36.0	14.0	2.7	8.9	8.3	10.5	26.9	29.3	3.6	5.0
Maine	35.35	189.39	2.2	13.5	8.1	25.9	2.0	1.8	79.8	46.5	2.1	0.5	3.7	9.3	0.6	0.3	1.5	2.2
Maryland	216.26	1,294.96	0.9	14.6	27.7	41.5	0.6	2.1	43.4	18.8	7.1	7.3	5.5	6.2	7.9	3.9	6.9	5.6
Massachusetts	602.53	2,671.75	0.2	13.1	25.2	18.5	1.0	0.3	57.3	52.6	1.6	0.3	4.7	7.5	6.3	4.9	3.7	2.8
New Hampshire	27.39	193.15	0.3	11.7	5.3	15.5	1.5	1.2	75.2	53.9	2.5	1.2	5.6	10.1	7.6	4.1	2.0	2.3
New Jersey	487.04	1,941.98	0.2	8.0	6.7	21.7	1.4	0.9	65.2	47.3	12.0	11.1	4.3	3.1	7.6	4.8	2.6	3.1
New York	2,900.23	18,096.93	0.8	7.0	16.1	35.0	0.8	1.0	37.8	21.8	16.2	15.8	7.4	6.4	12.7	6.0	8.2	7.0
Pennsylvania	489.95	2,212.79	0.3	20.0	6.0	10.0	0.8	0.9	36.5	17.2	26.8	28.6	7.1	8.7	13.2	5.8	9.3	8.8
Rhode Island	70.69	348.53	1.0	16.7	15.3	22.8	0.6	**3/	66.5	51.1	2.0	0.5	3.8	2.2	6.7	3.8	4.1	2.9
Vermont	16.12	53.12	0	13.1	7.0	4.4	2.7	0.5	51.5	29.5	3.5	1.0	7.4	9.0	27.4	38.5	0.5	4.0
Virginia	218.06	1,706.44	3.5	13.3	17.7	26.4	0.3	0.7	32.6	23.9	14.8	15.2	9.3	6.4	16.6	10.6	5.2	3.5
West Virginia	35.77	203.00	**	20.7	0.3	2.9	0.2	0.6	19.9	11.2	26.0	22.1	9.9	27.0	17.9	7.7	5.8	7.8
All municipali-																		
ties U.S.	12,047.05	73,526.94	0.9	12.1	12.4	19.2	1.3	1.4	35.7	21.3	13.4	14.2	7.9	9.3	19.7	14.6	8.7	7.9

1/ Includes sales and income taxes, death and gift taxes and licenses.

2/ Current charge categories include education, hospitals, natural resources, sewerage, housing and urban renewal, airports, water transport and terminals, sanitation other than sewerage, local parks and recreation, and parking facilities.

3/ \*\* indicates less than 0.1.

Source: U.S. Department of Commerce, Bureau of the Census. Census of Governments. Governmental Finances, No. 5: Compendium of Government Finances. Washington, July 1959 and August 1979.

municipalities in Connecticut and Massachusetts came quite close to the nationwide figure. Direct Federal aid became an important factor during the period. Federal aid was especially important in Delaware, Pennsylvania, and West Virginia, where it helped compensate for relatively low levels of state aid. In these states and Vermont, federal aid was a more important source of revenue than state aid.

The importance of municipal property taxes was at or above the national figure in 1957 in all states except Virginia and West Virginia. Although the relative importance of property taxes decreased in municipalities in all states, this is strikingly the same pattern as in 1977. Property taxes slipped below the nationwide figure in municipalities in Delaware and Pennsylvania, however, and municipalities in Maryland and Virginia reversed positions with respect to the national figure.

Despite the lessened reliance on the property tax, the importance of other taxes decreased or remained about the same in municipalities in all states except Delaware and Pennsylvania. This is in contrast to the nationwide trend towards somewhat greater use of other types of taxes. Nor did the importance of current charges increase in all states. In municipalities in six states, the importance of charges decreased or remained the same, although nationwide the importance of charges increased. In both years, relatively heavy reliance on the property tax was usually, but not always, associated with little use of alternative local revenue sources or fairly low levels of state and federal aid. In municipalities in Maine, for example, property taxes were still quite important despite not insignificant state aid and current charges. And in New Jersey, municipal property taxes were still important despite moderate use of sales taxes both in 1957-1977.

In general, the diminished importance of property taxes required that any two other sources of revenue be quite significant; the exception here was Maryland. Thus, property taxes were lowest where intergovernmental revenues were most important--Maryland, New York, Pennsylvania, and West Virginia--or where at least one other revenue source provided significant revenues at the local level--Delaware, New York, Pennsylvania, and West Virginia--or where both situations were present--Pennsylvania and West Virginia.

The third type of general purpose government, the township, is restricted to the New England and mid-Atlantic states. The entities designated as "townships" by the Census Bureau differ somewhat with respect to municipal powers. Townships in New England and New Jersey have full municipal powers, while townships in Pennsylvania and New York are a mixture of this "strong" New England township and the "weak" midwestern variety.

Compared to the changes at the county and municipal levels, townships experienced only modest changes in revenue composition from 1957-1977

(Table 3). Federal aid did increase in importance significantly, and was at or above the nationwide figure in all states except Connecticut and New Jersey. The importance of state aid increased significantly only in townships in Maine, Massachusetts, and Rhode Island, and actually decreased in townships in Pennsylvania and Vermont. The largest decrease in the importance of the property tax occurred in these same states. Increased state aid in Maine and Massachusetts and increased federal aid in Vermont made this possible. In Pennsylvania, greatly increased use of local income taxes and greater use of current charges made possible decreased reliance on the property tax, even while the state aid share declined.

In general, the property tax remained the dominant revenue source in townships. While the importance of the property tax did decrease in all the states, there was little revenue diversification at the local level. Except in townships in New Hampshire and Vermont, where the importance of other local taxes increased slightly, and in Pennsylvania townships, where the importance of the income tax in 1977 was more than 2.5 times what it was in 1957, the importance of other local taxes declined. The use of current charges increased in townships in three of the nine states, and were most important in townships in Pennsylvania. Townships in New Jersey made considerable use of sales taxes, but their relative importance did not increase between 1957 and 1977.

#### INSTITUTIONAL FACTORS

Differences in revenue composition between states and changes over time are, of course, very much a function of a variety of institutional and political factors. The relative responsibilities of state and local governments for financing or delivering services vary from state to state. For example, service delivery and financing are largely state responsibilities in Delaware, Vermont, and West Virginia. In contrast, in New Hampshire state and local governments operate largely independently of each other, in both financing and delivering services--a so-called "layer cake" model. These differences are highly correlated with differences in the level of state aid (Stephens and Olson, 1979).

Variations in the functions of jurisdictions with the same nominal title also affect revenue composition. Counties are especially variable in terms of their level of activity. For example, counties in Massachusetts, Maine, and Vermont are insignificant with respect to service delivery. In Maryland and Virginia, in contrast, counties are very active. One of their major activities is education. In Maryland, counties are chiefly responsible for a number of other activities, including highway maintenance and capital outlay, and recreation. It is hardly surprising, then, that state aid accounted for over 30 percent of revenues in counties in Maryland and Virginia,



Table 3--Revenue composition in townships of the Northeast: 1957 and 1977

State	Total revenues		Source of revenue															
			Intergovernmental revenue								Own source revenue							
			From federal:	From state:	From local:	Property	Other	Current	Utility	All	From federal:	From state:	From local:	Property	Other	Current	Utility	All
			government	government	governments:	taxes	taxes 1/	charges 2/	charges	other	government	government	governments:	taxes	taxes 1/	charges 2/	charges	other
	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977	1957	1977
	Millions of dollars		Percent															
Connecticut	152.68	1,082.63	1.3	3.9	17.4	18.4	1.3	2.8	71.4	67.1	0.9	0.6	4.6	4.3	0.3	1.5	2.8	1.4
Delaware	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maine	54.77	204.81	0.2	11.7	20.5	31.6	1.6	2.2	69.1	46.9	0.9	0.4	4.7	3.6	1.9	0.4	1.1	3.2
Maryland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Massachusetts	374.99	1,137.90	0.3	10.0	23.4	35.1	1.0	0.6	59.6	28.8	1.1	0.6	3.9	6.7	8.2	13.9	2.5	4.3
New Hampshire	14.83	102.18	*3/	13.1	12.6	16.9	0.2	*	70.4	48.6	3.2	3.8	4.0	6.0	6.6	5.5	3.0	6.1
New Jersey	80.84	657.93	0.1	6.2	5.3	7.6	0.6	0.5	58.4	51.8	24.0	23.1	2.9	3.9	3.2	2.3	5.5	4.6
New York	173.47	1,057.11	0.2	7.0	15.3	17.5	2.4	6.8	64.2	51.9	4.7	2.6	4.6	5.1	4.9	3.8	3.7	5.3
Pennsylvania	95.84	443.50	0.1	11.4	23.8	15.4	4.1	1.8	44.7	28.1	10.0	26.7	6.1	10.2	4.7	0.7	6.5	5.7
Rhode Island	26.96	198.26	2.2	8.8	17.8	27.7	1.4	0.2	67.0	58.0	2.3	0.5	3.1	1.9	2.9	1.1	3.3	1.9
Vermont	30.05	65.44	*	21.2	27.9	13.3	2.1	0.3	62.8	50.6	1.8	2.4	3.2	5.5	1.0	2.8	1.2	3.9
Virginia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
West Virginia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All townships,																		
U.S.	1,227.71	6,849.87	0.3	7.2	21.5	19.5	1.7	1.7	60.5	54.3	4.2	4.9	3.7	4.0	4.6	3.9	3.5	4.5

1/ Includes sales and income taxes, death and gift taxes and licenses.

2/ Current charge categories include education, hospitals, natural resources, sewerage, housing and urban renewal, airports, water transport and terminals, sanitation other than sewerage, local parks and recreation, and parking facilities.

3/ \*\* indicates less than 0.1.

Source: U.S. Department of Commerce, Bureau of the Census. Census of Governments. Governmental Finances, No. 5: Compendium of Government Finances. Washington, July 1959 and August 1979.

and less than 6 percent in counties in Massachusetts and Vermont. Nor is it surprising that user charges are quite important in counties in Maryland.

Municipalities and townships vary not so much in their level of activity, but in the functions for which they are responsible. For example, despite the existence of school districts in Connecticut, Massachusetts, and Rhode Island, towns and municipalities account for the bulk of local government expenditure for schools. This may be one reason why property taxes, the main source of local funding for schools, are relatively important to municipalities and townships in these states. In the other states, except Maryland and Virginia, school districts account for the bulk of local spending on education.

A further consideration is that state formulas for state-local revenue sharing vary widely. Major factors on which to base the allocation include origin, property tax reimbursement, population, and tax effort or capacity. Most states in the Northeast use a combination of at least two of these factors. This is not the case in Pennsylvania and Vermont, however, where in 1977, 100 percent and 95 percent, respectively, of state revenue sharing funds were distributed on the origin basis. Virginia distributed close to all of its funds on the basis of population. Only four other states take population into account, and in these cases population is not the major factor (ACIR, 1980). Relative changes in the position of local governments within a given state with respect to these factors, and changes in the formulas themselves, all influence the distribution of revenues among governments. Federal Revenue Sharing has had a major impact also by providing funds to all general purpose local governments.

Changes in revenue composition reflect changes both in the mix of services provided by local governments and also in sentiments about the proper role, size, and financing of government. A look at changes in the distribution of direct expenditures by function among types of government can shed some light on the first issue. The state government accounts for a larger share of total state and local direct expenditures for education in all the states. This combined with large increases in state aid to education has helped to ease pressure on the local property tax in those states where some or all of the responsibility for providing education lies with general purpose local governments. Only in Pennsylvania, Vermont, and West Virginia was virtually all local expenditure for education attributable to school districts in 1977.

This shift in direct expenditures from local to state governments has been accompanied by a similar shift between local governments in some cases. For example, in Maine the distribution of local education expenditures shifted substantially from municipalities and townships to school districts. And in Vermont school districts accounted for all local educational expenditures in 1977, but only 11 percent in 1957. Such shifts

could partially account for the decreased importance of property taxes in municipalities and townships in these states.

In contrast, townships in some states are taking on a larger role in the provision of some noneducation functions. This combined with relatively small increases in state aid for townships has meant that decreases in the relative importance of the property tax were not as great as in counties and municipalities. For example, the proportion of local expenditures for sewers attributable to townships increased in Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont while decreasing in municipalities in those states. The shift was similar with respect to expenditures for highways in Connecticut, Massachusetts, New Jersey, New York, Pennsylvania, and Vermont. In addition, some of the responsibility for direct expenditures for highways has shifted from the state to local governments in most of the states.

Another shift is the increasing importance of special districts in providing services. For example, special districts were more important in providing sewer services in many of the states, especially in New Jersey and Pennsylvania, in 1977 than in 1957. Special districts are also taking on increasing responsibilities for utilities. The shift to special districts for the provision of services such as these which are amenable to user charge financing helps explain the small increases, or even decreases in the importance of charges.

Changes in revenue composition also reflect changes in attitudes towards the proper size, role, and financing of government. Perhaps the most publicized aspect of this change is the recent movement to limit taxes and growth in expenditures. Reducing the importance of the property tax has been based on arguments that the tax is unfair and regressive and that it unduly restricts the ability of property-poor areas to finance services. In addition, there was and still is considerable sentiment that tax bills are simply too high. Such concerns have resulted in property tax relief for individuals in many states and increased state aid for many functions, notably education. Many local governments have used Federal Revenue Sharing to hold the line on, if not reduce, property tax levies. Significantly, concern with reducing the importance of property taxes did not result in a great movement towards diversifying local revenue sources between 1957 and 1977. For the most part, states in which certain types of jurisdictions made substantial use of other sources of revenue in 1977 had done so also in 1957. There are exceptions to this, of course, such as the increased importance of county sales taxes in New York, and of income taxes in Pennsylvania townships. In local governments in many states, use of alternative revenue sources declined overall.

During this period, the dependence of local governments on state and the federal governments to provide property tax relief as well as funding for a wide range of services and programs grew



dramatically. Real economic growth as well as inflation worked to keep state and federal revenues growing. It was thus relatively easy to maintain and even increase aid, in terms of both the number of dollars and also the number of programs. The need for tradeoffs between aid programs and other programs, while real, was not pressing.

Recently, however, the feeling that the state and federal governments can and should maintain such a financial commitment to local governments has weakened. While aid has allowed local governments to provide adequate service levels without imposing the full costs of these services directly on local residents, there is some concern that this gain is coming at the expense of a loss in local autonomy. There is, in addition, considerable sentiment that government at all levels has become too big, too meddlesome, and too inefficient. Finally, the fiscal condition of the federal and state governments is changing. Lower economic growth and the movement to cut taxes mean that growth in state and federal budgets is slowing. Thus, maintenance of aid programs will increasingly involve hard decisions on tradeoffs between aid programs and other programs.

The ability of local governments to cope with these changes in the fiscal and political environment is already, and will continue to be rigorously tested. Local officials will have to balance the demands for services with demands for less burdensome property taxes. The potential for such demands is particularly great in the Northeast where property taxes are generally high on a per capita basis and with respect to income. Property tax revenues per capita and as a percent of income were above the median in Connecticut, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont in 1977. Massachusetts, New Jersey, and New York ranked first, second, and third, respectively, with respect to local property taxes both per capita, and as a percent of per capita income.

At the same time, increased dependence on state and federal aid is not assured. Thus, even after eliminating waste and "frills" more painful service reductions may be necessary. In Massachusetts, where Proposition 2 1/2 recently took

effect, this is especially likely. Proposition 2 1/2 limits property taxes to 2.5 percent of assessed valuation and limits the growth in property tax revenues to 2.5 percent per year. Greater use of alternative revenue sources is likely. Local governments can use charges to cover the costs of services for which charges are appropriate. At present local governments in New England, Delaware, and West Virginia do not have authority to levy income or sale taxes. Such authority would require a major policy change at the state level to both authorize and administer these taxes.

#### CONCLUSION

During the period 1957 to 1977, local government revenue composition in the Northeast diverged from the national pattern. The future may be very different. In the face of measures such as Proposition 2 1/2 and tighter budgets at the state and federal level, which may preclude large increases in dependence on aid, will local governments make greater moves towards a more diversified local revenue mix than in the past? Or will a pattern of greater state responsibility for both financing and delivering services become more widespread? Given the current sentiment of taxpayers and disillusionment with government, it will be interesting to observe local public finances in the Northeast in the coming years.

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