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Fiscal Indicators and Trends in Rural Areas, 1972-77

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ABSTRACT

During the midseventies, local governments in both urban and rural areas were able to increase their expenditures while improving their fiscal condition by reducing property taxes and government debt. However, the fiscal conditions of nonmetro governments improved less than did metro governments. Fiscal conditions may have actually deteriorated in isolated, sparsely populated areas, where government fiscal problems are comparable in some respects with those of large central cities. Although most nonmetro governments can handle their own fiscal problems, Federal, State, and local government policies may be implemented to relieve the relatively severe fiscal problems of totally rural areas.

Keywords: Fiscal indicators, local government finances, rural development, fiscal trends, fiscal conditions, rural local governments.

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SUMMARY

Most metro and nonmetro governments had fiscal improvements between 1972 and 1977, the most recent years for which Census data were available. Federal and State aid enabled local governments to increase their real expenditures (after adjusting for inflation) while reducing their revenue efforts (local government taxes and user charges as a percentage of local income) and reducing real property tax levels and real debt levels per capita. However, the increased dependency of local governments on intergovernmental aid in the seventies may have made them more vulnerable to aid reductions in the eighties.

Nonmetro governments notably increased their capital spending. The rapid growth in nonmetro capital spending surpassed that of metro areas, closing part of the gap between metro and nonmetro capital spending per capita. In other respects, however, nonmetro fiscal conditions appear to have improved less than did metro fiscal conditions. Specifically, local government debt and property tax levels fell less in nonmetro areas than in metro areas. Because most nonmetro areas already have relatively low government debt levels, the relatively small decline in nonmetro government debt may not be problematic, especially when associated with increased capital expenditures. However, high dependency on property taxes makes nonmetro government budgets less flexible than metro government budgets; and the relatively small decline in nonmetro property taxes per capita suggests that nonmetro areas have fallen even further behind metro areas in their efforts to diversify sources of revenue.

The fiscal differences between totally rural and urbanized nonmetro areas are probably more important than the differences between metro and nonmetro areas. Totally rural areas generally had higher current expenditures per capita, a phenomenon which reflects the higher costs of providing services in sparsely populated areas. Totally rural areas also had higher revenues and debts relative to local income, uniquely experienced growing revenue efforts during the midseventies, and were highly dependent on property taxes, a sign of budget inflexibility.

A mix of Federal, State, and local government policies could help reduce the fiscal strain of nonmetro local governments. Although many local governments can handle their own fiscal problems, others, particularly those in low-income areas and in isolated, highly rural areas, may require Federal and State assistance. Federal and State policymakers could consider modifying intergovernmental aid formulas to reflect variations in nonmetro government fiscal conditions. However, the States bear the greatest responsibility, because they provide most of the intergovernmental revenue to local governments and they define the legal and fiscal constraints under which local governments must operate. Only the States can provide nonmetro property tax relief by giving small local governments authority to impose nonproperty taxes. Furthermore, States may encourage merging some nonmetro government activities to achieve economies of scale. Local officials look to the State for planning and technical assistance, so the States are in a unique position to assist local governments in designing strategies to avoid unnecessary fiscal strain.

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INTRODUCTION

During the late sixties and throughout the seventies, businesses and individuals increasingly moved to nonmetropolitan (nonmetro) areas. But local governments in some nonmetro areas may face formidable fiscal difficulties in accommodating this rural revival. Areas facing declining population and income are burdened with high tax rates and large government debts, making these places less attractive to current residents and the potential newcomers. Even those areas economically benefiting from recent growth face serious challenges in financing expanded government activities. One must identify those types of rural areas which differ from others on important fiscal indicators in order to address the policy implications of contrasting nonmetro fiscal conditions.

This report identifies significant nonmetro fiscal characteristics and trends in the midseventies (the most recent data available). Selected indicators, derived from Census of Governments data, reveal important fiscal differences and similarities among 10 types of nonmetro and metro areas. Because fiscal analysts place increasing emphasis on the dynamics of fiscal situations, 5-year trends are given for each fiscal indicator presented in this report. Metro areas are included for nonmetro-metro fiscal comparison.

Fiscal indicators in this study measure expenditures, revenues, and debts of local governments. The key indicators for each category are:

Expenditures:
- Direct current expenditures per capita,
- Direct capital expenditures per capita, and
- Total direct expenditures per capita, by function.

Revenues:
- Own-source general revenues as a percentage of income,
- Intergovernmental aid per capita,
- Intergovernmental aid as a percentage of total revenues,
- Property taxes per capita, and
- Property taxes as a percentage of own-source general revenues.

Debts:
- Outstanding long-term general debt per capita,
- Outstanding long-term general debt as a percentage of general revenues, and
- Outstanding long-term general debt as a percentage of income.

All indicators are ratios. Trends (shown in parentheses in the tables) are the average absolute change in the fiscal indicator between fiscal years 1972 and 1977.1/ Trends for the per capita fiscal ratios are adjusted for inflation.2/ Other fiscal ratios are expressed in "real" terms; hence no inflation adjustments were needed in computing trends for these ratios.

Data limitations precluded the use of some commonly used measures of fiscal condition. For example, the Census of Governments data on property value (a key tax-base variable) are not adequate for analyses of nonmetro areas.3/ The Census of Governments provides little specific information on government policies or short-term fiscal balances. Therefore, this report does not examine legal tax and debt limits and government deficits and surpluses. This study also excludes nonfiscal factors, whose influence on local government finances may be substantial but is not easily measured, such as unemployment, poverty, crime, and political leadership. The only socioeconomic factors considered are population and resident personal income, which form the denominator of per capita and per-dollar-of-income fiscal ratios.

Government finance data were obtained from "county area" Census of Governments tapes, which provide fiscal information aggregated for all local governments (county, municipality, town, township, school district, and special district) within each county or census-defined county area in the Nation. Ratios and trends were computed for each county area from the county fiscal totals; then average ratios and trends were computed for specific types of nonmetro and metro areas.4/

Four metro and six nonmetro categories are defined in table 1. Nonmetro categories differ by population (urbanized, less urbanized, or totally rural) and by proximity to metro areas (adjacent or independent). The proximity distinction is made because residents of adjacent nonmetro areas (nonmetro counties which are contiguous with metro areas and have 1 percent or more of their residents commuting to the metro area for employment) often use metro-provided public services. Independent nonmetro areas (nonmetro counties which are not contiguous with metro areas or have less than 1 percent of their residents commuting to metro areas) are more self-sufficient, and hence exhibit different fiscal characteristics. Metro categories in this report differ by population size (large, medium, and small). Large metro areas were further divided into core and fringe counties within the metro area. Core, medium, and small metro areas were considered independent, while fringe metro areas (the suburbs of large cities) were considered adjacent.

1/ Percentage changes are not presented because they can be misleading when ratios are close to zero.

2/ The State-local government implicit price deflator was used to express changes in 1977 constant dollars.

3/ For more information on this and other rural fiscal data limitations, see Reeder (10, pp.29-30).

4/ All indicators presented in this report are unweighted averages of the indicators for all individual county areas within a specified nonmetro-metro category. This approach gives equal weight to each county within a given category and guarantees that lightly populated areas receive weights equal to those for more densely populated areas within the highly rural categories.

LOCAL GOVERNMENT EXPENDITURES

Per capita expenditure data reveal some of the most important fiscal attributes of local governments, including the scale and growth of governments. Although expenditure indicators reveal some significant nonmetro-metro distinctions, the similarities may be more important. For example, local governments spent close to $700 per capita in 1977 for most types of metro-nonmetro areas (table 2). This urban-rural similarity conflicts with the popular notion that metro governments spend much more than nonmetro governments. Only the Nation's largest central cities (the metro core classification) have exceptionally high expenditures per capita, about 50 percent higher than other areas.

Current and Capital Expenditures

Current expenditure per capita may not be a particularly useful measure of variations in public services provided by local governments because it reflects variations in the cost of providing services. However, it is still a good indicator of the current drain on fiscal resources associated with providing services. Areas removed from and adjacent to metro areas exhibit a sharp difference in the relationship between metro classification and per capita spending. Independent areas are characterized by an urban-rural pattern of current expenditures that is U-shaped; the downward sloping (urban) portion of the "U" is steep, and the upward sloping (rural) portion is mild. This pattern is reversed for adjacent areas (fig. 1).

Independent Areas

Conventional wisdom suggests that the U-shaped urban-rural pattern reflects cost variations associated with economies of scale in providing local government services (7). Economic theory suggests there is an optimal city size (or degree of urbanization) which has the lowest cost per capita for providing services. If the observed U-shaped pattern reflects such economies of scale, then small metro areas with only $556 in average spending per capita face the optimal, least-cost situation for independent areas. Larger and smaller communities are expected to have higher costs per capita, because larger communities suffer from congestion-related costs and smaller communities face extra costs associated with providing services to a small population which is often geographically dispersed. However, simple comparisons of average expenditures ignore many other factors which would have to be taken into account in a rigorous test of the economies of scale hypothesis.

Core areas with $886 in current spending per capita have exceptionally high costs of providing services. This reflects not only diseconomies of scale, but other factors as well.5/ After core areas, totally rural areas face the highest costs of providing government services, with an average $588 in current expenditures per capita.

5/ Some empirical studies have found big city costs to be associated with political factors (3). In addition, the presence of commuters also may explain extraordinarily high expenditures in core metro areas (1, pp.211-27).

These high costs, apparently associated with diseconomies of scale, illustrate that there are large demands on the fiscal resources of highly rural areas.

Adjacent Areas

Local governments in three of the four metro-adjacent categories spent substantially less than did independent areas with similar urbanization levels, especially in fringe metro areas (the suburbs of big cities) where current expenditures per capita averaged $581--over $300 less than in core metro areas. Totally rural adjacent areas spent $76 less per capita than did totally rural independent areas; less urbanized adjacent areas spent $45 less than did less urbanized independent areas.

Adjacent areas usually spend less on locally provided government services because at least 1 percent of the population commutes to metro areas. Commuters can be expected to demand less public services from the local government where they reside because peak usage of many government services occurs at their place of work. This increases the spending levels of metro local governments, especially those of core counties, and decreases the spending levels of local governments in metro-adjacent areas.

Adjacent areas are characterized by an urban-rural pattern of current expenditures that is an inverted U shape, a reversal of the shape for independent areas. A variety of factors affecting commuting patterns and the demand for locally provided public services could have caused the inverted shape. For example, because of their proximity to central cities, fringe metro areas may have many more people commuting, and therefore, lower local spending levels when compared with urbanized adjacent areas. Among adjacent nonmetro areas, the tendency for local government spending to decrease as one moves from urbanized to totally rural nonmetro areas may also be explained in part by differences in commuting. Because commuting to core counties can be expected to increase with decreasing size of local employment and shopping centers, the more rural areas may have more significant commuting, and thus reduced demand for locally provided public services.6/

Economies of scale may contribute to the inverted shape of urban-rural spending patterns for adjacent areas. For example, in highly rural areas and in fringe metro areas, where diseconomies of scale exist for local provision of public services, residents may choose to avoid the high costs of some locally provided services by using metro-provided services as substitutes.7/ This may reduce their demand for locally provided services enough to result in low levels of current spending for their local governments.8/

6/ For a discussion of intercounty migration patterns in nonmetro areas, see (2).

7/ For example, residents in adjacent areas may go to nearby cities to use their public libraries, visit public museums and art galleries, or attend recreational and sports facilities.

8/ This explanation assumes that the availability of metro-provided substitute public goods to adjacent areas results in an elastic demand for locally provided public goods.

In urbanized nonmetro areas, which have more economies of scale, local governments may be able to provide more public services at lower costs than obtainable from metro areas. This would explain why urbanized areas have higher current expenditure levels than the more urban (fringe metro) and the most rural (totally rural) of adjacent areas.

Caution is advised when interpreting tax and expenditure indicators for adjacent areas. Although local governments in adjacent areas may tax and spend less than do those independent areas, their residents do not necessarily pay less taxes overall. In addition to their own local government taxes, residents commuting to metro areas pay taxes and user charges directly to metro governments. Consequently, taxpayers in such adjacent areas may pay as much in total taxes and charges as do taxpayers of independent areas.

Expenditure Trends

Rising current expenditures signify potential fiscal strain for both metro and nonmetro areas. For most types of nonmetro areas, current expenditures accounted for more than 67 percent of total expenditure growth from 1972 to 1977.9/ The real increase in current expenditures (after adjusting for inflation) was around $50 to $60 per capita for most types of metro and nonmetro areas.10/ Less urbanized and totally rural adjacent areas, which usually spend less, had slightly less expenditure growth. Core urban areas' current spending grew by $86 per capita in real terms, but had roughly the same expenditure growth rate because of their high base-level current spending.

Capital spending indicators most reflect the nonmetro population revival during the seventies. From 1972 to 1977, every nonmetro classification experienced real growth in capital spending per capita: totally rural areas increased the most and urbanized nonmetro areas increased the least (table 2). In contrast, two of the four metro classifications had declining real capital spending per capita, and one (core areas) had little capital spending growth.11/

Nonmetro capital spending growth can be beneficial. Traditionally, rural areas were thought to have had inadequate capital spending. Small populations, low incomes, and projected long-term population declines made major capital

9/ For the urbanized nonmetro category, almost all of the expenditure growth was in the form of current expenditures.

10/ All per capita changes presented in this report are "real," meaning that they have been adjusted for inflation. The State-local government implicit price deflator, which grew about 50 percent during 1972-77, is the deflator used for all adjustments.

11/ This finding--that core areas, on average, continued to have slow, but real, growth in capital spending--does not conflict with recent statements that many big cities have been forced to make significant infrastructure spending cutbacks. Regional patterns (not shown here) reveal that real capital spending per capita grew rapidly in southern core areas, but fell in western and north central core areas, and fell significantly in the northeastern core areas. In addition, regular maintenance costs are not considered capital expenditures. Hence, capital spending can increase while total spending on infrastructure, including capital maintenance, decreases.

spending projects unfeasible for most rural areas. But with the recent nonmetro population revival, the ability of nonmetro governments to raise external funds and the need for nonmetro capital spending have increased dramatically. By 1977, most nonmetro classifications achieved capital spending levels comparable on a per capita basis with most metro classifications.

New capital should improve nonmetro government services. For growing places, it could reduce real current expenditures because nonmetro governments are moving toward economies of scale. Nevertheless, the growth in nonmetro capital spending may have some negative fiscal consequences. Capital spending requires substantial public borrowing, resulting in higher interest and principal repayment costs over the long run. These costs, as well as new capital maintenance costs, place additional demands on fiscal resources. Long-term rural fiscal problems could arise if the population does not continue to increase.

Regardless of the long-term possibilities, rapid growth in capital spending can cause acute short-term fiscal strain. Major capital spending projects sometimes occur prior to the immigration of population and businesses, resulting in expenditure growth preceding the growth of tax bases, temporarily increasing tax burdens on current residents. Aggravating these difficulties is the inequity that may occur when current residents have to pay for facilities designed for future residents.12/

Expenditure Trends by Function

Two functions, education and highways, account for about half of nonmetro government expenditures. Another function, public welfare, takes a much smaller share of the local budget, but it is thought to have a disproportionately large effect on fiscal resources and public needs.

During the midseventies, local government education expenditures increased in real terms for all metro and nonmetro categories with the exception of urban fringe areas.13/ However, most increases were small relative to total education expenditures (education is the largest budget item for local governments). Rising energy costs and new State-mandated education requirements may explain much of this increase. The largest spending increase occurred for totally rural, independent areas, where real education spending rose $25 per capita.

Many small, isolated nonmetro communities continue to lose population. Although they have been consolidating with neighbors for years, some may

12/ For a general discussion of the fiscal impacts of growth, see (14).
13/ This report uses the same State and local price deflator to adjust each function for inflation, hence the resulting real growth trends ignore variations in cost increases. Although this approach prevents one from making meaningful conclusions about changing service levels, it distinguishes between the functions which have contributed more to expenditure growth and the functions which have contributed less.

choose to keep their one school open, despite the substantial increase in education costs per capita resulting from that decision. Although this can add to local government fiscal strain, it may be the only publicly acceptable policy, given the alternative of providing no education. Larger communities and small communities located near metropolitan areas do not face this fiscal problem because they have the alternative of transferring students to nearby schools.

Highways represent the most visible infrastructure problem in metro and nonmetro areas. Nonmetro highway expenditures might be expected to increase because of the growth and redistribution of nonmetro population, and the higher standards required by modern transportation. However, highway expenditures per capita stagnated or declined in most areas. Local governments may bear an increasing share of the costs of road repair unless higher levels of government provide more financing. Nonmetro areas, especially totally rural, independent areas, may be particularly affected by deteriorating road conditions because of their considerable road expenditures.

In 1977, local welfare expenditures in core urban areas were over twice as high as the next highest metro-nonmetro category (urbanized adjacent).14/ The sizable disparity between core areas and surrounding fringe areas has been one of the chief causes of fiscal instability for major metro areas. Some studies show that adverse fiscal impacts are associated with high city welfare benefits, which may attract the poor to the city and repel the upper and middle classes(3).

Despite high poverty levels in nonmetro areas, local welfare expenditures are very low compared with core areas. While this may not benefit nonmetro welfare recipients, it gives nonmetro governments more fiscal stability because their lower welfare spending reduces the incentive for the metro poor to migrate to nonmetro areas and increases the incentive for the nonmetro poor to migrate to metro areas. This fiscal advantage for nonmetro governments may have diminished since core area welfare expenditures fell dramatically (in real per capita dollars). But nonmetro welfare expenditures have also declined (in real per capita dollars). The most dramatic decline occurred for totally rural independent areas. Beginning with the lowest welfare expenditure levels in 1972, these areas cut their real expenditures on welfare by over one-third in 5 years.

Functions that had relatively high rates of inflation, particularly utilities and health and hospitals, had the most expenditure growth (table 3). Unfortunately, metro-nonmetro comparisons for these functions are misleading, because the census did not uniformly survey all sizes of government.15/

14/ Direct expenditures, the measure of local welfare expenditures used here, exclude intergovernmental payments by local governments (local-to-local and local-to-State payments).

15/ Census of Governments surveys do not ask small communities (under 2,500 population) to specify government expenditures for many functions, including most of the functions which have had rapid expenditure growth in recent years (5, pp.5-7).

This makes metro-nonmetro differences for all but five major functions (education, police, fire, highways, and welfare) difficult to assess.

LOCAL GOVERNMENT REVENUES

Fiscal strain associated with rapid growth of local government expenditures depends on the condition of local revenue bases. Communities with large and rapidly growing tax bases can finance growing expenditures with less fiscal difficulty than communities with small and stagnant tax bases. This report focuses on two aspects of local government revenues, fiscal effort and revenue structure, to evaluate the condition of local revenue bases. Fiscal effort measures the extent to which locally raised revenues pressure local tax bases. Revenue structure refers to the local revenue mix, which changed dramatically in the midseventies with the rapid growth of Federal and State aid and the declining importance of the property tax.

Fiscal Effort

Fiscal effort indicators are commonly used to measure the fiscal pressure on State and local taxpayers. These indicators take on additional importance because they are used to distribute intergovernmental aid, including Federal general revenue sharing funds. Studies of small cities and nonmetro areas usually use effort indicators which are expressed in the form of a ratio of locally raised revenues divided by income, where income represents the local tax base (6). This study presents two such indicators: tax effort and own general revenue effort (table 4).16/

Of the two indicators, tax effort (locally raised taxes divided by resident personal income) most closely resembles the effort measure used to target General Revenue Sharing and other Federal and State aid to local governments. However, tax effort has been criticized because it excludes user charges and other nontax local revenues. The exclusion of user charges hinders metro-nonmetro comparisons because nonmetro governments typically raise a greater proportion of their own revenues from this source than do metro areas.17/ To avoid potential comparability problems, this study focuses on own general revenue effort, which includes local taxes and charges but excludes utility

16/ For States and metro areas, available data allow for more sophisticated measures of tax base, such as the fiscal capacity measures developed by the Advisory Commission on Intergovernmental Relations (ACIR). Without accurate national data for nonmetro property values, the ACIR effort and capacity measures cannot be estimated for all nonmetro areas (18, p.67). But in States where adequate data are available, ACIR measures can be estimated. For example, see (19) and (8).

17/ Tax effort has also been criticized for excluding voluntary efforts (13). This criticism also applies to own general-revenue effort.

revenues.18/ Although the following discussion ignores the tax effort, it may be observed that tax effort basically follows the same urban-rural pattern as that of own general revenue effort.

In 1977, own general-revenue efforts increased substantially with increasing rurality in independent areas. In highly rural areas, 7.7 percent of income went to own general revenues, much higher than the 5 to 6 percent of income recorded for most other independent urban and rural types. Core urban areas remain an exception, with 7.9 percent of their income going to own general revenues. Small and medium metro areas had markedly lower efforts. Thus, independent areas had a V-shaped urban-rural pattern (fig. 2). A V-shaped pattern may be explained partly by the economies of scale argument discussed previously and partly by the tendency for income (the denominator of the effort ratio) to decrease with increasing rurality.

When only areas with similar incomes are compared, nonmetro efforts appear much higher than do metro efforts. This may be a better basis for comparison, because high-income communities usually have higher efforts than do low-income communities. Presumably, this reflects the high-income community's choice to consume more public services; hence it does not necessarily imply undue pressure on their tax bases. In income-constant comparisons, core urban areas still have relatively high efforts, but totally rural independent areas have even greater efforts. For example, among counties with incomes between $6,000 and $6,999 per capita, efforts of totally rural independent areas were equal to 9.3 percent of income compared with 8 percent for core urban areas (table 4). Other types of metro areas had much lower efforts, ranging from 5.6 percent to 6.1 percent, while most nonmetro areas had somewhat higher efforts, ranging from 5.8 percent to 9.3 percent; only adjacent, totally rural areas had lower efforts than metro areas.19/

The relatively large efforts persisted in independent nonmetro areas during the seventies despite substantial reduction in revenue efforts for most types of nonmetro areas. Between 1972 and 1977, own general-revenue efforts declined by 0.3 to 0.5 percent of income for the urbanized and less urbanized categories. Governments in small metro areas exhibited a similar decline in effort; but efforts declined by only 0.2 percent of income in the other three metro categories.

Totally rural areas differed from this trend. Own general-revenue efforts rose for both independent and adjacent totally rural areas. This trend may compound

18/ If public utility and liquor stores were included, communities with publicly owned utilities would be credited with revenue efforts associated with those utilities, while communities with privately owned utilities would not, thus creating a potential bias in interpreting the measure. To avoid this problem, public utility and liquor store revenues are excluded from own general-revenue effort.

19/ Although the low incomes of highly rural areas may cause their revenue efforts to understate their fiscal strain, this may be offset by other factors, such as tax shifting, which may exaggerate the revenue efforts of some highly rural areas relative to metro areas (11).

the fiscal problems for independent totally rural areas, which also have relatively high efforts. This combination of both high and rising efforts has been likened to having a high "fiscal blood pressure" (17).

Revenue Structure

Increased Federal and State aid to local governments may have reduced local revenue efforts. From 1972 to 1977, per capita aid to local governments grew 86 percent. This represented a substantial increase, even after adjusting for inflation. Most of the increase was in the form of new Federal aid and resulted from the establishment of the General Revenue Sharing program. These funds, as well as much of the antirecession assistance funds which peaked around 1977, had few restrictions and no matching requirements.

Both metro and nonmetro areas shared in this growth of aid. Core urban areas benefited the most, receiving large increases from both Federal and State sources (table 5). Other metro and nonmetro areas benefited less. Although most had similar Federal aid growth, State aid growth was noticeably higher for core urban areas and lower for the more rural areas.20/ Per capita Federal aid continues to favor metro areas despite the equalizing effect of revenue sharing.

While at a time of growing local expenditure demands and historically high levels of inflation and recession, most State and local officials viewed the growth of intergovernmental aid as helpful in easing their fiscal problems. However, there was a potentially harmful side effect: local governments became more dependent on higher levels of governments and thus more vulnerable to Federal and State program changes. Aid dependency (aid as a percentage of total local revenues) indicates this heightened fiscal vulnerability.

The most significant metro-nonmetro difference in aid dependency occurs in adjacent areas, where aid dependency increases substantially with increasing rurality, from 37 percent for fringe metro areas to 50 percent for totally rural areas (fig. 3), the varied dependency due to State aid.21/ Aid dependency parallels a pattern similar to education expenditures (table 3), reflecting the fact that most State aid goes to local education.

Independent urban and rural areas had almost identical aid dependencies, about 43 percent. Core urban areas were only 38-percent aid dependent, mainly due to low State aid dependency. However, core areas had the highest Federal aid dependency, over 10 percent, making them more vulnerable to Federal aid reductions.

20/ Although this suggests that State governments increased aid more for metro than for nonmetro areas, these data include Federal aid passed through the State. Hence, this difference could be related to Federal program priorities as well as State priorities.

21/ State aid includes Federal pass-through funds.

Changes in other local revenue components, such as property taxes, affect the fiscal pressure on local governments. In the midseventies, real per capita property taxes fell for most areas. The decline was greatest for core urban areas and smallest for urban fringe and totally rural areas (table 6). Totally rural areas may have had little property tax relief because of rising farm land assessments.22/ In 1977, totally rural areas and urban fringe areas relied on property taxes for more than 60 percent of their own local revenues (fig. 4). This measure of property tax dependency was considerably lower, about 57 percent, for most other metro and nonmetro areas.

The fiscal implications of this high dependency on property taxes vary by locality. If much property is owned by nonresidents, local residents may rely heavily on property taxes in order to "export" some of their tax burden to nonresidents (15), such as in vacation and recreation resort areas. Property tax exporting may also benefit nonmetro areas with substantial corporate farm and industrial properties, because a substantial portion of their property taxes presumably would be paid by nonresidents.23/

However, high property tax dependency may reflect fiscal difficulty for many rural areas. Many rural taxpayers are low-income farmers or retirees who, despite owning their own house or farm, can barely afford to pay their property taxes. Voters in these areas often resist proposals to impose new taxes. High property tax dependency may also be the result of State limitations on local revenue sources. Many States prohibit local sales and income taxes, and some States allow such taxes only for larger municipalities. Others require a large majority in local voter acceptance before local sales and income taxes may be imposed. Majority voter approval may be difficult to obtain, especially in traditionally conservative nonmetro areas. These restrictions can severely constrain the revenue options open to nonmetro governments and contribute to their fiscal difficulties.

Regardless of the cause of property tax dependency, areas with high property tax dependency may experience heightened fiscal strain in this current era of property tax limits. Since the passage of California's Proposition 13, such limits on property assessments and/or property tax rates have become commonplace. Although tax constraints may limit the size of government, they can have adverse fiscal impacts.24/ Because totally rural areas are heavily dependent on property taxes, they may be more vulnerable to this fiscal strain than may other metro and nonmetro areas.

22/ Totally rural areas also experienced more growth in school spending, which is financed by property taxes. However, this factor would not explain the small property tax decline in fringe areas where real school spending per capita declined.

23/ The incidence of the tax is much harder to determine. Under some conditions, employees may bear part of the burden of the taxes (9).

24/ For example, the San Jose, California, unified school district declared bankruptcy in 1983, partly because of its inability to raise sufficient revenues following the enactment of Proposition 13.

The difficulty of raising new taxes in nonmetro areas compounds this problem (table 6). Although nonmetro local governments were successful in increasing general sales taxes, they were less successful in raising other local taxes, including local income taxes. Nonmetro areas disproportionately raised user charges and fees (more so than did metro areas) probably to compensate for this slow growth in nonproperty taxes.

LOCAL GOVERNMENT DEBT

The prospect of government default on debt obligations in cities such as New York and Cleveland has directed public attention to local government debts. Although less publicized, nonmetro government defaults are more common than are metro defaults (16, p.16). Although instances of government default on debt obligations are quite rare, rural governments in areas where population is rapidly declining may default because of progressively higher tax burdens associated with payments on debt.25/ More often, governments facing potential default are forced to cut expenditures or raise taxes. Therefore, considerable fiscal strain can result from heavy debt burdens, even in the absense of an actual default. This section examines per capita debt levels and trends and two debt burden indicators: debt as a percentage of revenue and debt as a percentage of income.

Per Capita Debt

In 1977, nonmetro areas had much lower debt levels than did metro areas (table 7). Independent totally rural areas had the lowest total government debt levels, about $400 per person; urbanized nonmetro areas had about $500 debt per person; and most metro areas had between $600 and $700 debt per person. Core urban areas had over $1,000 debt per person, and had the highest debt levels for each kind of debt: short-term, long-term general, and long-term utility debt. This study focuses on long-term general debt.26/

Totally rural areas have greater long-term general outstanding debt levels than do other nonmetro areas. The lowest debt levels are for urbanized and less urbanized nonmetro areas. Metro areas have higher debt levels which increase with increasing metro size.

25/ Some rural government defaults are unrelated to debt. Because of their limited financial resources, when small governments make errors in judgement that lead to expensive lawsuits and corrective actions, defaults sometimes result.

26/ In conjuction with indicators of liquidity and budget surplus (or shortfall), short-term debt may identify governments facing acute short-term fiscal stress. But short-term debt fluctuates substantially each year, making it a poor debt indicator for identifying long-term fiscal differences. Utility debt, which is excluded from long-term general debt, is important because it can be quite large, but it may be misleading because it understates the debt of some communities which rely heavily on privately owned utilities which are not counted in Census of Governments data.

Long-term general debt levels, when adjusted for inflation, declined for all metro and nonmetro areas during 1972-77.27/ The decline was greatest ($147 per capita) for core urban areas, and least ($8 per capita) for totally rural adjacent areas. Real long-term general debt declined rapidly (about $80 per capita) for urbanized areas, and moderately (about $50 per capita) for most other metro and nonmetro areas.

Debt Ratios

Debt-revenue and debt-income ratios better measure the local government fiscal strain associated with government debt. The debt-revenue ratio measures government debt relative to government revenues. The debt-revenue ratio measures the budget inflexibility related to debt because debt payments are an uncontrollable (or inflexible) drain on local government revenues. Governments with substantial revenues (from aid, taxes, user charges, and other sources) will have less trouble (more flexiblity) financing their debt than will governments with limited revenue sources. The debt-income ratio measures government debt relative to the local population's income. The debt-income ratio (sometimes called debt effort) better measures the fiscal burden associated with government debt because it measures debt in relation to residents' ability to finance debt.

Metro areas have noticeably higher debt-revenue ratios than do nonmetro areas. Fringe counties of large metro areas had the highest debt-revenue ratios (63 percent), followed by core (54 percent), medium (51 percent), and small (47 percent) metro areas (table 7). These high debt-revenue ratios reduce the flexibility of metro government budgets. Nonmetro areas had lower debt-revenue ratios (36-38 percent), indicating that debt finance is less important to nonmetro budgets. However, this ratio may understate the situation for nonmetro areas which depend heavily on Federal and State aid, because some intergovernmental revenues cannot be used for debt payments. In addition, aid-dependent areas may be vulnerable to debt finance problems if aid is reduced substantially.

Although nonmetro governments have lower debt-revenue ratios than do metro governments, their debt-income ratios (debt efforts) are close to metro ratios because most nonmetro areas have lower incomes than do metro areas (fig. 5). Totally rural areas have debt efforts that are comparable with small- and medium-metro area debt efforts (48 percent). Only large metro areas have higher debt efforts; core urban areas have the highest debt efforts (75 percent). Urbanized nonmetro areas have the lowest debt efforts, 37 percent. Among nonmetro areas, urbanized areas also benefit the most from declining debt efforts: totally rural areas had the smallest decline (7 percent of income) and core urban areas had the largest decline (23 percent of income).

27/ Real changes are computed in 1977 constant dollars, deflated by the State-local implicit-price deflator.

CONCLUSIONS AND POLICY IMPLICATIONS

The indicators and trends in this report represent averages for all metro or nonmetro areas. Averages necessarily hide important fiscal differences between States, county areas within a State, and individual governments within each county area. More fiscal diversity would be revealed if individual county data were presented. Fiscal conditions vary because of varying State and local government policies; socioeconomic factors such as income, age, employment, and industrial structure; and community preferences for public goods and services. Although aggregate metro-nonmetro distinctions only account for part of the fiscal variations, the distinctions identify some important similarities and differences.

Metro-Nonmetro Variations

Some of the fiscal conditions of metro areas were like those of nonmetro areas during the midseventies. Most types of metro and nonmetro areas spent about the same per capita, both in total and in current (noncapital) spending. Excluding metro-adjacent areas, both metro and nonmetro areas were equally dependent on intergovernmental aid. Both had growing real expenditures and aid per capita; declining real property tax and debt per capita; and declining revenue efforts. Although public service levels may still be inadequate in some places, declining revenue and debt efforts fiscally benefited local governments. Hence, fiscal conditions for local governments appear to have improved for most metro and nonmetro areas during the midseventies. However, local governments in both areas became more dependent on Federal and State aid. By 1977, most local governments were more vulnerable to aid reductions and relied on intergovernmental aid for more than 40 percent of their general revenues.

Independent, totally rural areas may have more fiscal pressure than do core urban areas. Core urban areas had higher revenues, expenditures, and debts per capita. But totally rural areas had higher revenue efforts in income-constant comparisons. Totally rural areas were unique in having both high and rising revenue efforts. That core urban areas face difficult fiscal problems should not surprise many people. However, the difficult problems of totally rural areas have received relatively little attention.

Nonmetro capital spending levels were lower than in metro areas. But during the midseventies, local government capital expenditures grew more in nonmetro than in metro areas, perhaps revealing that nonmetro governments responded to the rural turnaround in the midseventies by updating and expanding their capital facilities (perhaps spurred by government policies). Because most nonmetro areas had lower debt levels than did metro areas, much of their new capital spending may have been financed without much difficulty by issuing government debt. Nevertheless, it may benefit rural areas to keep their debt levels well below those of metro areas, given the considerable uncertainty over prospects for nonmetro population growth and the high interest rates currently being paid on local government debt.

Revenue effort, a key indicator of fiscal pressure on the local tax base, continues to be higher in nonmetro areas than in metro areas (excluding large urban areas, core and fringe). The tendency for revenue effort to increase with rurality is related to diseconomies of scale associated with increasing rurality. These diseconomies cause rural governments to have relatively high revenue efforts even though their low incomes reduce their ability to raise revenues. When comparisons are made among places with similar incomes, metro-nonmetro effort differences are even greater.

The relatively inflexible revenue structure of nonmetro governments amplifies the fiscal pressure on nonmetro tax bases. Nonmetro areas depend more on property taxes than do metro areas. There may be some fiscal advantages in depending heavily on property taxes, especially with regard to the ability to export property taxes to nonresident property owners, but the high property tax dependency may increase nonmetro governments' vulnerability to property tax limitations. While both metro and nonmetro areas benefited from declining real property tax levels, nonmetro property taxes declined less than did metro property taxes, resulting in a relatively less diversified and less flexible tax structure in nonmetro areas.

Some other fiscal indicators vary more between highly rural and less rural areas than between metro and nonmetro areas. For example, among independent nonmetro areas, per capita spending on education increased more in totally rural areas than in urbanized areas. This trend added to the spending difference because totally rural areas already spent more per capita on education. Similarly, real property tax levels, which are greater in highly rural areas than in less rural areas, declined least in totally rural areas. Other fiscal trends show that totally rural areas benefited less from declining real debt levels and had less State aid growth.

Adjacent versus Independent

Metro-adjacent areas often differ from independent areas, regardless of their metro-nonmetro status. Although similar in some respects, most adjacent areas had lower revenue, expenditure, and debt levels than did independent areas because residents of adjacent areas may choose to obtain many public services from nearby metro areas. However, the significance of these differences is hard to interpret, because residents of adjacent areas often must pay taxes or user fees to two local jurisdictions (their own and the metro jurisdiction to which they commute), and there are no available data to determine their total tax burden.

When focusing on independent areas: both metro and nonmetro areas appear to be subject to economies of scale in providing public goods and services. Distinct U-shaped metro-nonmetro patterns are observed for current expenditures per capita, revenue effort, and debt effort. Although this pattern could result from other factors, it strongly suggests to those who hypothesize that economies of scale exist in the public sector that medium metro, small metro, and urbanized nonmetro areas have the greatest economies of scale. Areas which are either more urban or more rural than these had worse fiscal conditions.

Policy Implications

Federal and State policies should recognize the differences between the fiscal problems of highly rural areas and less rural areas. Policies can be designed to counteract the structural diseconomies of scale in highly rural areas. For example, some Federal and State regulations designed for metro areas are unnecessarily costly for small rural governments. Reasonable modification of such regulations would relieve some rural government fiscal pressures. In addition, States can provide the means by which small governments may pool their financial assets, debts, and expenditures to achieve savings through economies of scale. Some States recently assisted small local governments to achieve economies of scale by establishing investment pools, consolidating retirement systems, pooling municipal bond offerings, and consolidating procurement activities. Rural governments have achieved similar economies through interlocal agreements with neighboring local governments. Other than the policies outlined above, there may be little more anyone can do about the fiscal problems of totally rural areas, except to recognize them in Federal and State aid programs targeted to local governments experiencing fiscal strain.28/

A variety of Federal, State, and local government policies may have directly or indirectly improved local fiscal conditions for rural areas in general. At the Federal level, rural development programs may well have contributed to the rural population growth of the midseventies and improved the fiscal condition of many rural governments in the process. Some Federal programs may have particularly helped reduce the metro-nonmetro capital spending gap.29/ In addition, Federal fiscal and monetary policies in the midseventies have at times contributed to the growth of local tax bases and reduced the fiscal pressures associated with the recession.

State laws delineate the fiscal structure of local governments, giving States many options to alleviate local government fiscal pressures. State governments can relieve nonmetro fiscal pressure by allowing local governments to diversify their tax bases. Nonmetro areas, which traditionally have higher property tax levels, might benefit from the removal of State restrictions on the use of nonproperty revenue bases, such as local income and sales taxes. Easing State limitations on property taxes and debt levels also may help, as would State assumption of responsibility for maintaining roads and other functions. States can further assist nonmetro governments by monitoring their fiscal conditions and by providing technical assistance to their planning efforts. Nonmetro governments receive over 40 percent of their revenues from State governments; States can provide some stability to nonmetro government budgets by maintaining current aid programs.

28/ General Revenue Sharing is one example of an aid program which is targeted to relieve local fiscal pressure and provides more assistance to highly rural areas than to other areas.

29/ For example, nonmetro areas benefited from several infrastructure loan programs of USDA's Farmers Home Administration. For these and other examples of Federal programs benefiting nonmetro areas during the midseventies, see (12).

Some solutions to nonmetro fiscal problems require interlocal cooperation. Interlocal cooperation may vary from cooperation in regional and substate planning activities to joint ventures of two or more neighboring communities. In addition, interlocal agreements may allow residents of unincorporated areas to obtain and pay for services supplied by nearby units of local governments. Similarly, metro-adjacent nonmetro areas may benefit from contracting with nearby metro areas for public services. However, annexation may be a desirable alternative in some cases.

Individual local governments must accept some responsibility for their fiscal condition. Many nonmetro communities hold considerable power over their fiscal situations: implementing user charges and changing zoning provisions can increase local revenues substantially. With proper planning and management, building and maintaining essential infrastructure is within reach of most nonmetro local governments, allowing for debt-financed capital improvements without incurring high government debt burdens like those of metro areas. Better nonmetro planning is required to develop strategies for reducing local fiscal strain. With technical assistance and training from higher levels of government, nonmetro government officals could monitor the financial trends of their local government more systematically in order to respond promptly to developing fiscal difficulties.

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Table 1--Metro-nonmetro classifications

Type of area	Definition (based on 1970 population)	Number of county areas 1/
Metro:		
Core metro	Counties containing the primary central city of a large (over 1 million) SMSA 2/	45
Fringe metro	Suburban counties within a large (over 1 million) SMSA	136
Medium metro	Counties of a medium-sized (250,000-1 million) SMSA	276
Small metro	Counties of a small-sized (50,000-250,000) SMSA 3/	203
Nonmetro:		
Urbanized adjacent	Nonmetro counties with 20,000-50,000 urban residents; adjacent to a metro area 4/	163
Urbanized independent	Nonmetro counties with 20,000-50,000 urban residents; independent of a metro area 5/	147
Less urbanized adjacent	Nonmetro counties with 2,500-20,000 urban residents; adjacent to a metro area	569
Less urbanized independent	Nonmetro counties with 2,500-20,000 urban residents; independent of a metro area	712
Totally rural adjacent	Nonmetro counties with fewer than 2,500 urban residents; adjacent to a metro area	254
Totally rural independent	Nonmetro counties with fewer than 2,500 urban residents; independent of a metro area	595

1/ The number of county areas may differ from other studies because some county areas have been consolidated and Alaska boroughs have been excluded to facilitate comparisons over time.

2/ In States which do not have county jurisdictions, county areas have been defined by the Bureau of the Census. For the New England States, New England Metropolitan County Areas are used to categorize county areas.

3/ A Standard Metropolitan Statistical Area (SMSA) is a county or group of contiguous counties, usually containing one or more cities with a combined population of 50,000 or more, defined by the Office of Managment and Budget. Nonmetro counties are all counties other than those within SMSAs.

4/ Adjacent means the county is adjacent to an SMSA and has at least 1 percent of its population commuting to an SMSA.

5/ Independent means the county is either nonadjacent to an SMSA or it is adjacent with less than 1 percent of its population commuting to an SMSA.

Table 2—Direct expenditures per capita, by major type, 1977
(1972-77 change in parentheses) 1/

Type of area	Total expenditures 2/	Current expenditures	Capital expenditures
		Dollars	
Independent:			
Core metro	1,132	886	196
	(97)	(86)	(5)
Medium metro	695	563	103
	(61)	(63)	(-4)
Small metro	729	556	141
	(103)	(53)	(43)
Urbanized nonmetro	704	576	106
	(61)	(58)	(4)
Less urbanized nonmetro	722	588	113
	(69)	(60)	(13)
Totally rural nonmetro	712	598	98
	(92)	(63)	(28)
Adjacent:			
Fringe metro	719	581	107
	(40)	(50)	(-13)
Urbanized nonmetro	723	601	100
	(63)	(60)	(4)
Less urbanized nonmetro	649	543	88
	(58)	(47)	(12)
Totally rural nonmetro	630	522	90
	(84)	(49)	(30)

1/ For per capita debt, 1972 to 1977 change in per capita expenditures expressed in 1977 constant dollars.
2/ Total includes current, capital, interest, and other expenditures; intergovernmental payments are excluded from all categories.

Table 3 — Direct expenditures per capita, by function, 1977 1/
(1972-77 change in parentheses) 2/

Type of area	Education	Police	Fire	Highways	Welfare	Health and hospitals 3/	Sewage and sanitation 3/	Administration 3/	Utilities 3/	Other 3/
					Dollars					
Independent:										
Core metro	365	61	32	59	75	73	60	51	155	160
	(4)	(7)	(3)	(-17)	(-16)	(4)	(12)	(7)	(63)	(25)
Medium metro	315	27	14	40	29	35	35	32	69	75
	(7)	(5)	(2)	(-1)	(-2)	(5)	(8)	(5)	(16)	(15)
Small metro	313	26	14	46	21	53	36	33	99	71
	(4)	(6)	(2)	(1)	(-6)	(15)	(15)	(6)	(44)	(15)
Urbanized nonmetro	313	25	14	50	17	57	30	31	74	75
	(8)	(6)	(3)	(1)	(-5)	(9)	(9)	(6)	(13)	(13)
Less urbanized nonmetro	328	22	7	68	14	66	19	34	89	58
	(15)	(6)	(2)	(-5)	(-8)	(17)	(6)	(5)	(27)	(7)
Totally rural nonmetro	360	20	5	93	14	46	8	45	40	65
	(25)	(6)	(3)	(0)	(-8)	(14)	(5)	(7)	(25)	(13)
Adjacent:										
Fringe metro	357	30	13	42	24	39	33	33	51	70
	(-11)	(7)	(4)	(-2)	(-4)	(5)	(5)	(4)	(12)	(20)
Urbanized nonmetro	328	27	15	50	32	48	34	34	65	71
	(7)	(5)	(4)	(-2)	(-3)	(8)	(9)	(6)	(14)	(17)
Less urbanized nonmetro	313	20	7	57	17	54	20	30	61	55
	(10)	(5)	(2)	(-2)	(-5)	(8)	(7)	(4)	(19)	(11)
Totally rural nonmetro	335	19	4	64	15	39	7	38	34	58
	(22)	(6)	(2)	(-3)	(-8)	(12)	(5)	(7)	(21)	(16)

1/ Excludes intergovernmental payments.
2/ 1972 to 1977 change in per capita expenditures expressed in 1977 constant dollars.
3/ Census survey categories differed among different size and type of government.

Table 4 — Fiscal effort measures, 1977
(1972-77 change in parentheses) 1/

Type of area	All counties		Counties with $6,000 to $6,999 per capita income in 1977
	Tax effort 2/	Own general revenue effort 3/	Own general revenue effort 3/
		Percent	
Independent:			
Core metro	5.8 (-.3)	7.9 (-.2)	8.0 (-.2)
Medium metro	3.6 (-.3)	5.2 (-.2)	5.6 (-.3)
Small metro	3.5 (-.5)	5.5 (-.4)	5.6 (-.5)
Urbanized nonmetro	3.5 (-.4)	5.7 (-.3)	6.0 (-.6)
Less urbanized nonmetro	4.0 (-.4)	6.3 (-.4)	7.2 (-.5)
Totally rural nonmetro	5.7 (.2)	7.7 (.5)	9.3 (.6)
Adjacent:			
Fringe metro	4.2 (-.2)	5.7 (-.2)	6.1 (-.5)
Urbanized nonmetro	3.9 (-.5)	5.8 (-.3)	5.8 (-.7)
Less urbanized nonmetro	3.5 (-.5)	5.4 (-.5)	7.1 4/
Totally rural nonmetro	4.1 (-.1)	6.0 (.2)	5.2 (-.5)

1/ 1972 to 1977 change in effort, expressed as a percentage of resident personal income.
2/ Local taxes as a percentage of resident personal income.
3/ Local own source general revenues as a percentage of resident personal income.
4/ Magnitude of growth or decline less than 0.05 in absolute value.

Table 5 — Federal and State aid per capita
(1972-77 change in parentheses)1/

Type of area	Total Federal and State	Direct Federal			State total 3/
		Total	General revenue sharing 2/		
		Dollars			
Independent:					
Core metro	453	151	24		302
	(120)	(77)	(24)		(43)
Meduim metro	294	54	17		240
	(56)	(31)	(17)		(25)
Small metro	290	57	18		233
	(66)	(38)	(18)		(29)
Urbanized nonmetro	290	53	20		237
	(56)	(31)	(20)		(25)
Less urbanized nonmetro	286	45	21		241
	(48)	(30)	(21)		(18)
Totally rural nonmetro	287	47	24		240
	(46)	(36)	(24)		(11)
Adjacent:					
Fringe metro	259	39	14		220
	(39)	(25)	(14)		(14)
Urbanized nonmetro	309	53	19		255
	(62)	(33)	(19)		(28)
Less urbanized nonmetro	284	40	19		244
	(50)	(29)	(19)		(28)
Totally rural nonmetro	294	37	20		257
	(39)	(26)	(20)		(13)

1/ 1972 to 1977 change in per capita aid expressed in 1977 constant dollars.
2/ General revenue sharing began to distribute funds after fiscal year 1972.
3/ Includes Federal pass-through funds.

Table 6 — Own-source revenues, per capita, 1977
(1972-77 change in parentheses) 1/

Type of area	Total	Tax revenues					Non-tax revenues			
		Total	Property	General sales	Income	Other	Total	User charges and fees	Utility and liquor revenues	Other
					Dollars					
Independent:										
Core metro	683	457	350	35	30	42	226	108	69	49
	(14)	(-6)	(-27)	(9)	(4)	(7)	(20)	(7)	(7)	(6)
Meduim metro	397	239	195	19	7	18	158	68	60	29
	(18)	(-5)	(-12)	(5)	(2)	(1)	(23)	(4)	(15)	(5)
Small metro	410	221	188	14	3	16	189	87	61	41
	(16)	(-13)	(-19)	(4)	(1)	2/	(30)	(9)	(12)	(8)
Urbanized nonmetro	425	216	181	17	3	15	209	100	75	34
	(20)	(-7)	(-14)	(6)	2/	(1)	(27)	(12)	(11)	(4)
Less urbanized nonmetro	433	230	209	9	1	11	203	93	77	32
	(25)	(-9)	(-13)	(4)	2/	(-1)	(34)	(11)	(22)	2/
Totally rural nonmetro	445	302	285	6	2	11	143	70	37	37
	(27)	(-7)	(-9)	(4)	2/	(-3)	(35)	(13)	(20)	(2)
Adjacent:										
Fringe metro	457	311	267	16	9	19	147	73	41	33
	(17)	(2)	(-7)	(5)	(2)	(2)	(15)	(6)	(6)	(3)
Urbanized nonmetro	430	249	221	18	7	13	181	83	65	33
	(14)	(-14)	(-20)	(4)	(2)	2/	(28)	(11)	(13)	(4)
Less urbanized nonmetro	370	201	175	12	2	11	169	83	60	27
	(16)	(-11)	(-16)	(5)	(1)	(-1)	(27)	(8)	(17)	(1)
Totally rural nonmetro	339	216	196	7	1	12	123	57	30	37
	(32)	(-4)	(-7)	(4)	(1)	(-2)	(37)	(11)	(16)	(9)

1/ 1972 to 1977 change in per capita revenues expressed in 1977 constant dollars.
2/ Magnitude of change less than 0.5 in absolute value.

Table 7 — Debt outstanding, per capita and ratios
(1972-77 change in parentheses) 1/

Type of area	Per capita debt			Debt ratios 2/	
	Long-term general	Long-term utility	Total short-term	Debt/revenue	Debt/income
	Dollars			Percent	
Independent:					
Core metro	582	397	64	54	75
	(-147)	(95)	(-46)	(-23)	(-22)
Medium metro	318	250	33	51	49
	(-59)	(19)	(-24)	(-16)	(-12)
Small metro	299	374	21	47	47
	(-50)	(105)	(-18)	(-14)	(-12)
Urbanized nonmetro	229	288	15	36	37
	(-98)	(-6)	(7)	(-20)	(-21)
Less urbanized nonmetro	232	292	13	36	41
	(-59)	(6)	(-2)	(-14)	(-16)
Totally rural nonmetro	251	137	7	38	48
	(-34)	(31)	(-3)	(-7)	(-6)
Adjacent:					
Fringe metro	429	199	27	63	58
	(-44)	(25)	(-20)	(-12)	(-22)
Urbanized nonmetro	240	232	26	36	39
	(-72)	(-13)	(-26)	(-17)	(-15)
Less urbanized nonmetro	224	174	11	38	39
	(-55)	(-12)	(-14)	(-14)	(-14)
Totally rural nonmetro	241	190	9	38	46
	(-8)	(112)	(-6)	(-8)	(-4)

1/ For per capita debt, 1972 to 1977 change expressed in 1977 constant dollars. For ratio indicators, 1972 to 1977 is the change in the ratio expressed in percentage points.

2/ Both ratios are for long-term general debt and are expressed in percentage terms. General revenues are used in the debt/revenue ratio; resident personal income is used in the debt/income ratio.

FIGURE 1--CURRENT EXPENDITURES PER CAPITA, 1977

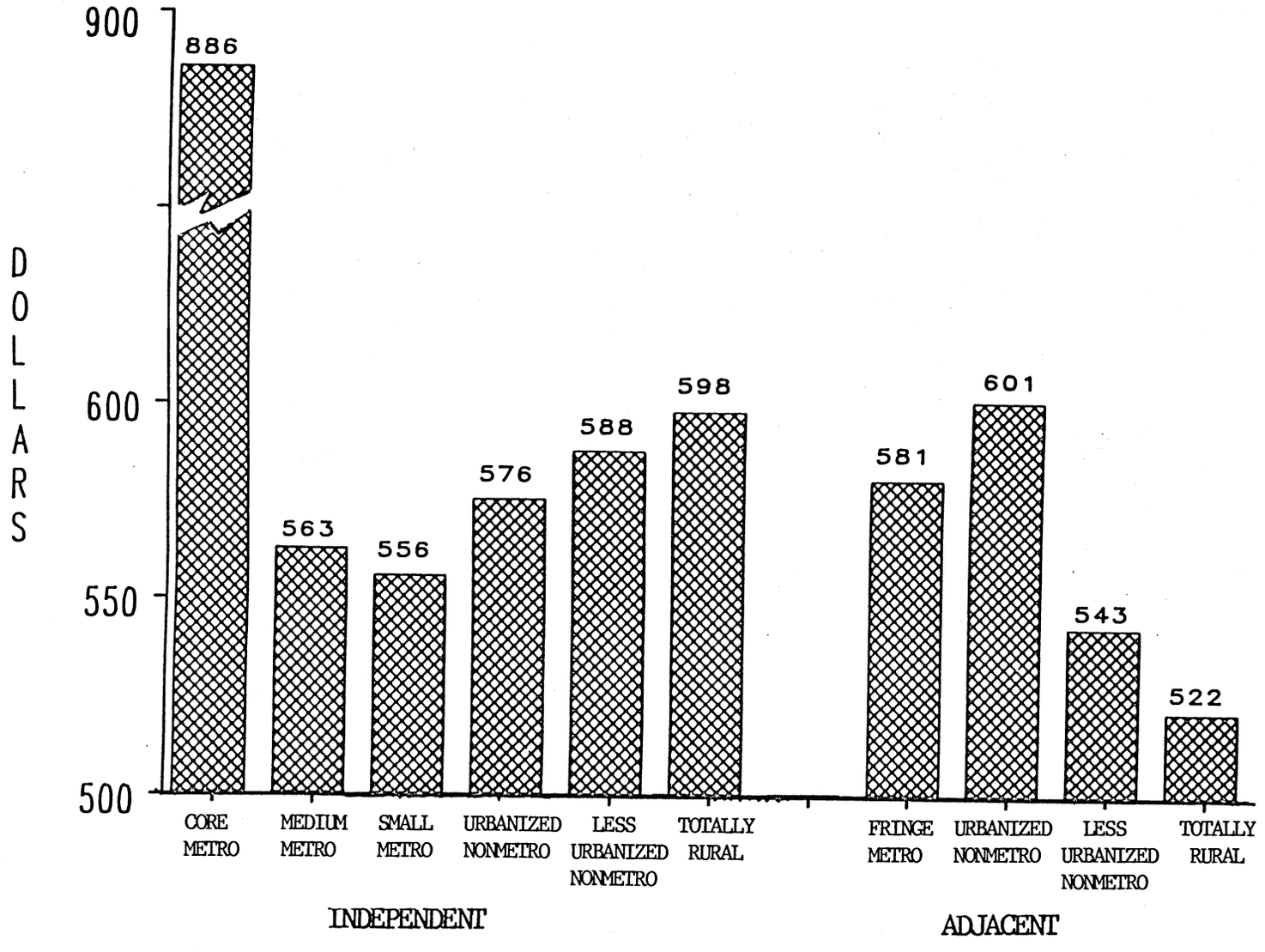
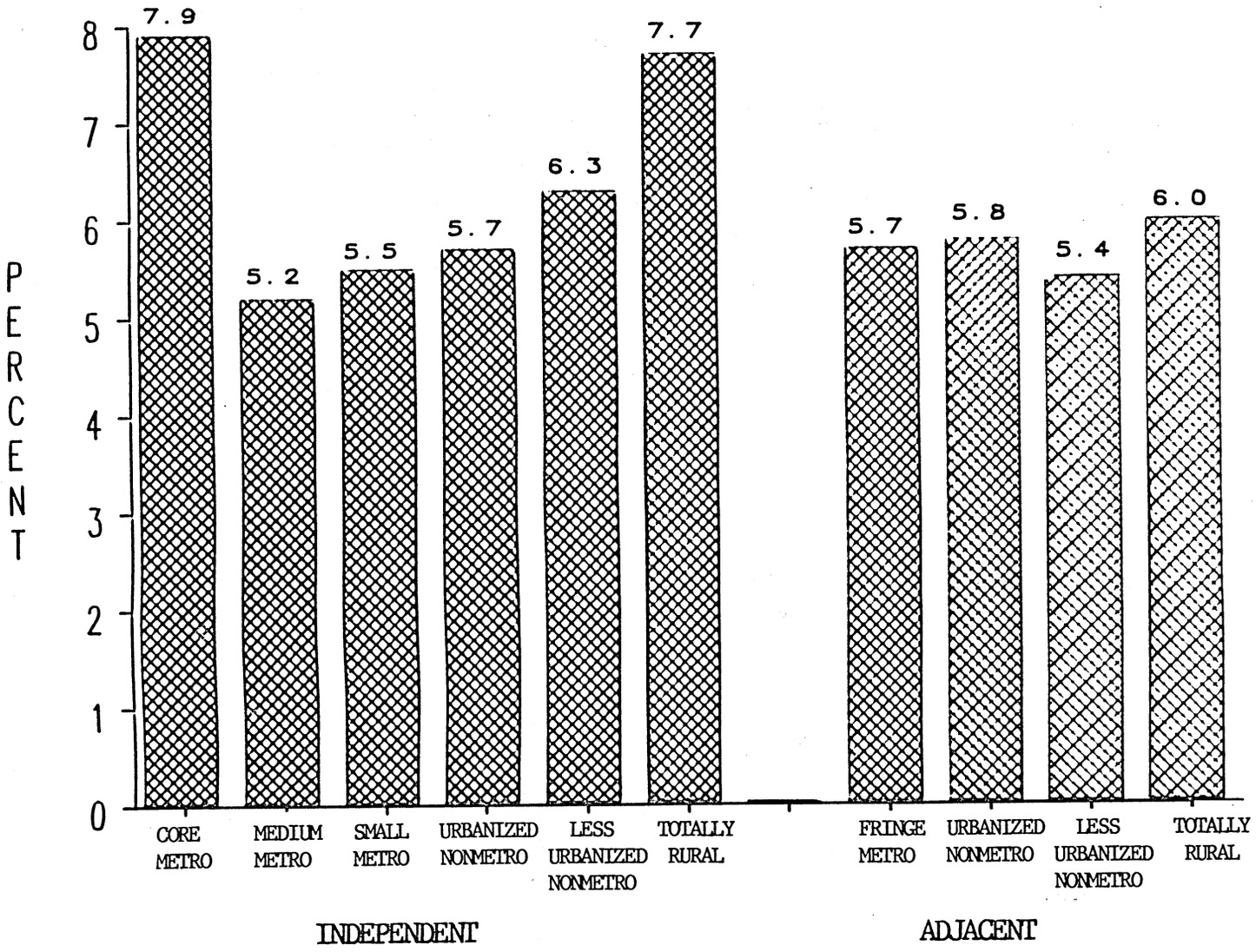
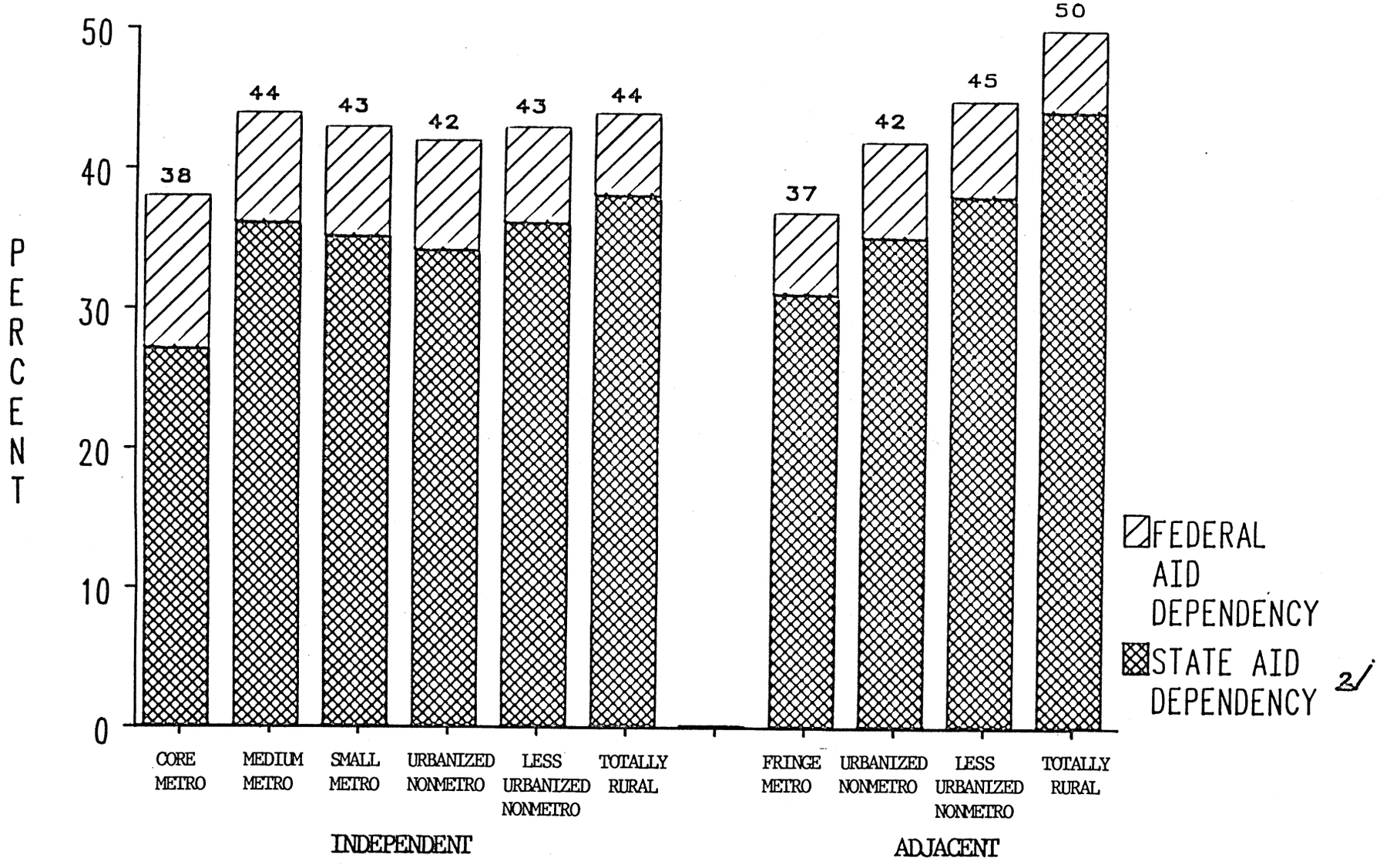


FIGURE 2--OWN GENERAL REVENUE EFFORT, 1977 [1/]



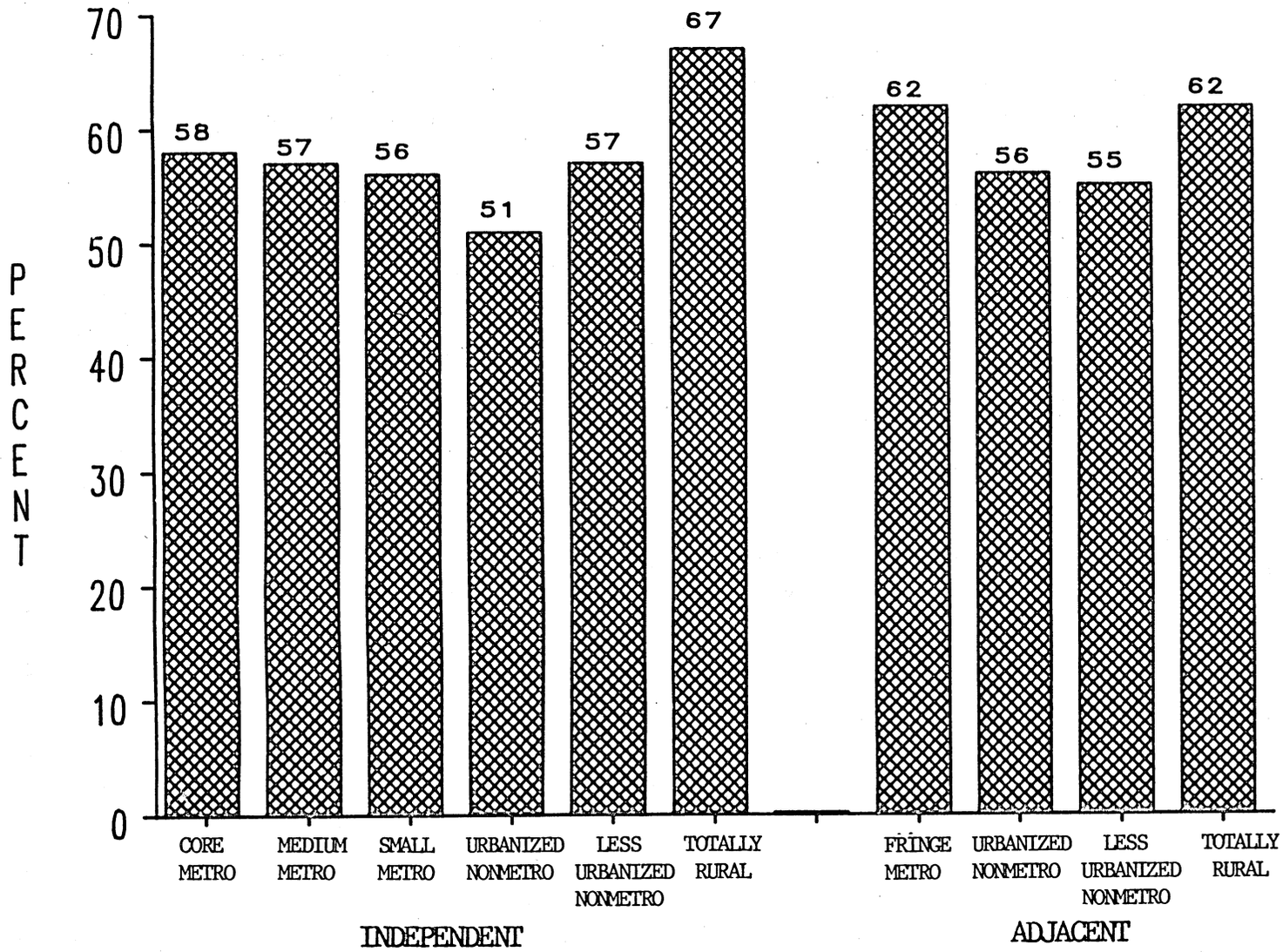
1/ LOCAL OWN SOURCE GENERAL REVENUES AS A PERCENTAGE OF RESIDENT PERSONAL INCOME

FIGURE 3--AID DEPENDENCY, 1977 1/



1/ AID TO LOCAL GOVERNMENT AS PERCENTAGE OF TOTAL LOCAL REVENUES
2/ INCLUDES FEDERAL AID PASSED THROUGH STATE GOVERNMENTS

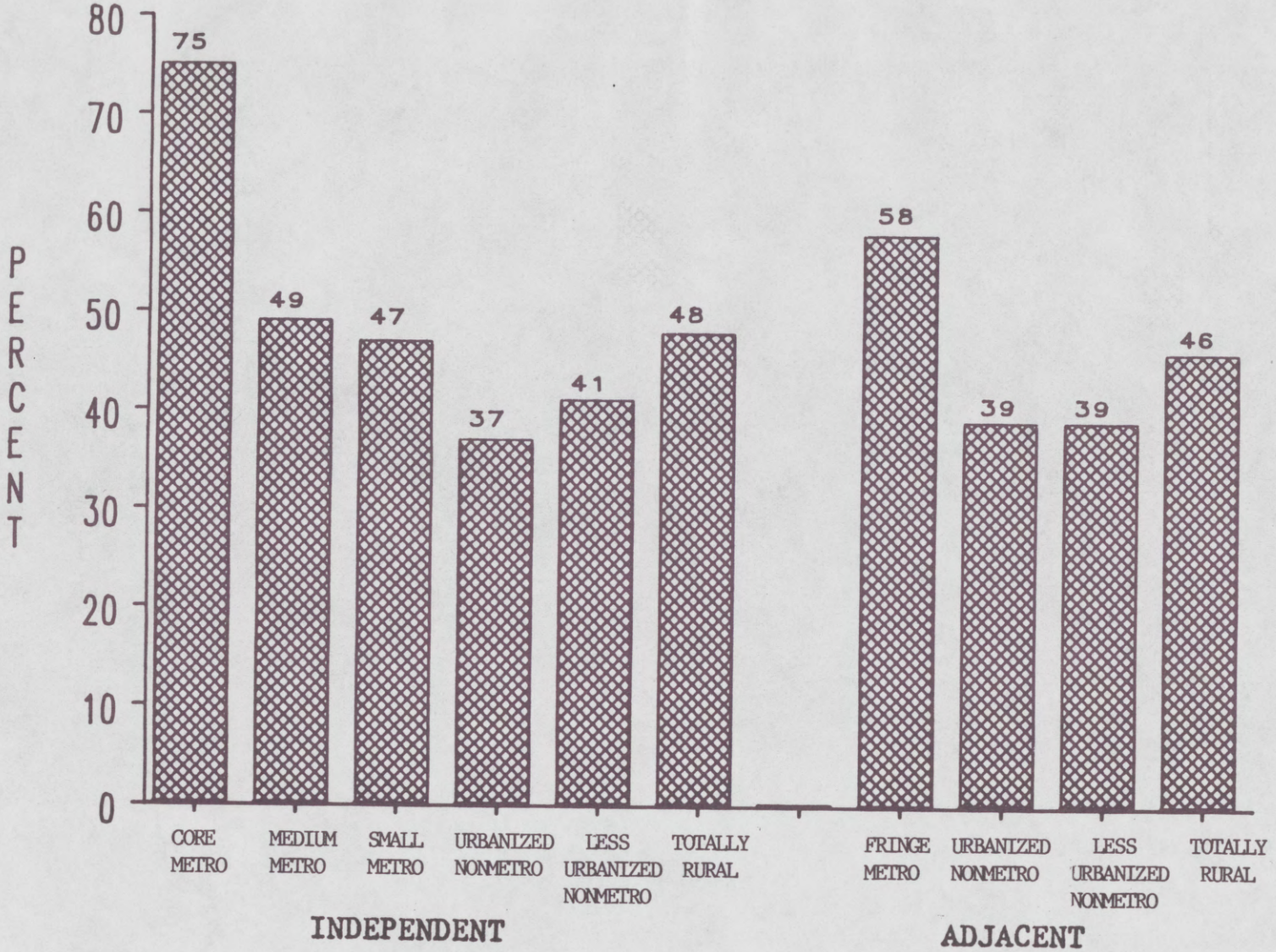
FIGURE 4—PROPERTY TAX DEPENDENCY, 1977 [1/]



1/ PROPERTY TAXES AS PERCENTAGE OF OWN SOURCE GENERAL REVENUES

* U.S. GOVERNMENT PRINTING OFFICE: 1986-490-917:20418-ERS

FIGURE 5—GENERAL DEBT EFFORT, 1977 1/



1/ LONG TERM GENERAL DEBT OUTSTANDING AS PERCENTAGE OF RESIDENT PERSONAL INCOME