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How States Provide Cities with General Revenue: An Analysis of Unrestricted State Aid

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Abstract

Municipal governments in the United States generate revenues from their own sources (their authority to charge for services and collect taxes); other governments (intergovernmental revenue); and, by issuing debt or borrowing (typically for fixed assets). This report focuses on the state portion of intergovernmental revenue, and, excludes the federal aid. In 2017, state governments contributed $83.8 billion to municipalities' total general revenues of $491.4 billion (excluding debt), or, approximately 17 percent of municipal general revenues. Most state aid is dedicated to specific functions and purposes, and, some state aid is for general or unrestricted purposes. Unrestricted state aid amounted to 3 percent of total municipal general revenue, or, $15.6 billion in 2017. Yet, states vary widely in the design of unrestricted state aid programs, and, some do not offer unrestricted state aid at all. In fact, in only eight states did unrestricted state aid account for at least 10 percent of municipalities' total general revenues.

While the design of state aid programs varies, there are three common approaches for distributing funds to municipalities. These common approaches are:

- origin of taxation or consumption (also referred to as "situs-based"), which effectively means that the state is the collection agent, thereby reducing administrative costs for local governments, and, transfers funds to municipalities;
- population, which implicitly redistributes funds without regard to the municipality's or residents' needs, nor to the municipality's or residents' contribution; and
- equalization or needs-based, which explicitly redistributes funds for the express purpose of providing a floor of revenue to each municipality, or, to more equitably distribute resources among all municipalities.

Unrestricted aid programs are also often one of two types: "lump-sum" (which is shared state revenue without regard to the revenue source); and, "tax earmarking" (which is a specific revenue source that is shared with municipalities). Twelve states provide "lump-sum program" support, amounting to $59.35 per capita (median value) to municipalities, or, the equivalent of 2.8 percent of total municipal revenue.

Twenty-six states provided "tax earmarking" support for municipalities in 2017, amounting to $41.28 per capita (median) to municipalities, or, the equivalent of 2.9 percent of municipal revenue. Only 14 states, however, share income and general sales tax revenue with municipalities, and, of those two taxes, it is most common for general sales tax revenue to be shared. Three states (Arizona, Illinois, and Tennessee) earmark both a portion of their income and sales tax collections to municipal governments as unrestricted aid.

Between 2007 and 2017, a time period that included the Great Recession, real, per-capita state aid decreased by 22 percent. Among the 26 tax earmarking states, the median amount of aid decreased the most in the first several years of the Great Recession, between 2007 and 2012, by 10 percent (and remained flat between 2012 and 2017), indicating that declines in aid were mainly attributable to the economic downturn. In contrast, for the 12 lump-sum states, median aid fell more sharply in the 2012 to 2017 period by 11 percent (and declined by 6 percent between 2007 and 2012). This lagged effect suggests that, unlike the tax earmarking states that

experienced declines in state aid due to the declining economic position of the state, state governments in lump-sum states took legislative action to reduce state aid.

This report provides a deep look at the policies and laws concerning unrestricted state aid to municipalities, and, describes the range of contemporary state grant programs in the 50 states. Also included are additional details on state aid in ten case-study states: Arizona; Florida; Idaho; Illinois; Minnesota; Montana; Nevada; North Carolina; Tennessee; and Wisconsin.

Keywords: general state aid; intergovernmental revenue; revenue sharing; tax earmarking; unrestricted state aid

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How States Provide Cities with General Revenue: An Analysis of Unrestricted State Aid

Introduction

Intergovernmental revenue is an important revenue source for local governments in the United States. In 2017, revenue from federal and state governments accounted for 22 percent of municipal governments' total revenue, and, the vast majority of that intergovernmental revenue was from state governments (Census of Governments 2017). However, most state aid is for restricted uses, and, the amount of *unrestricted* state aid has decreased sharply between 2007 and 2017. As governments face unprecedented fiscal pressures tied to the COVID-19 pandemic, municipal governments are likely to be especially hard hit, and understanding the dynamics of state aid to municipalities can help identify opportunities for state governments to support municipal fiscal health.

We conducted a mixed-methods research study on the policies and laws concerning unrestricted state aid to municipalities with the aim of describing contemporary state grant design that supports municipalities' finances. Our study is limited to municipal governments (that is cities, towns, and villages) and unrestricted revenue, and, as such, excludes revenue for dedicated purposes (that is road funds). More specifically, we sought to identify *how* state governments provide unrestricted aid to municipalities; what statutory language governs the distribution of that aid; and, the formulae or processes state governments use to distribute aid to municipalities. While municipalities have autonomy over how to use unrestricted aid, these programs are often intended to achieve certain policy goals (like reducing property taxes). Because of this we also situate unrestricted aid programs within the larger context of public finance and fiscal federalism, and, specifically highlight the decline in unrestricted aid since the 2007–2009 recession (referred to in this report as the "Great Recession").

Analytic Framework and Principles of Public Finance

Traditional frameworks of public finance can inform our understanding and assessment of what constitute sound public finance systems. As outlined in public finance textbooks (see, especially, Fisher 2018; Musgrave and Musgrave 1989), government activities can be categorized according to whether they are designed to stabilize the economy (countercyclical); redistribute income (distributional); or, allocate resources to meet specific needs. The design of a public finance system should be based on a fair and sound tax structure that must be efficient, equitable, and administratively simple. An efficient and effective finance system does not distort the market or consumer preferences, unless the tax is designed specifically to alter consumer behavior (known as sumptuary taxes, such as alcohol and tobacco taxes). Its administrative apparatus should not be onerous or costly to the government, and, it should generate a substantial amount of revenue at a low cost.

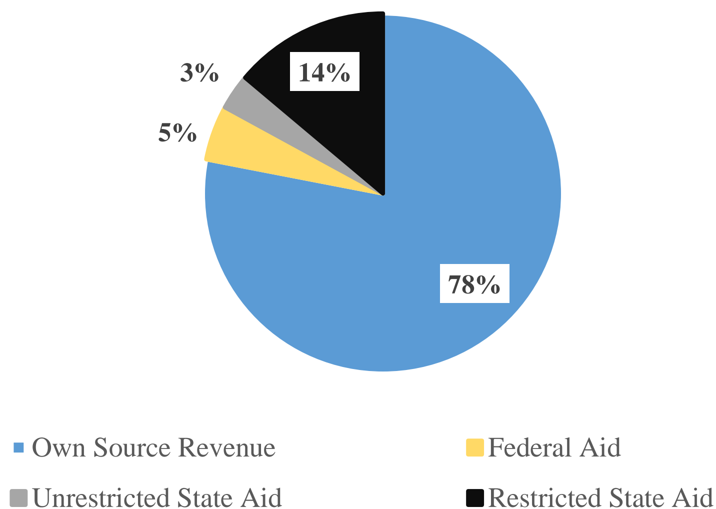
The federal system of the United States also recognizes the importance of the intergovernmental finance structure. Because states are sovereign in the federal system, their relationships with their local governments, or, creatures of the state, vary. States decide individually how much funding

to provide local governments, under what conditions, and, which services are the responsibility of which unit of government. States design grants for a variety of purposes. State aid can provide financial support to municipalities as a means of ensuring all municipalities provide a minimal level of service; to reduce/offset local tax burdens on individuals and/or firms; to incentivize additional spending on targeted services; and/or to provide general support to be spent at the discretion of the municipality.

Intergovernmental revenue (also called intergovernmental grants and grants-in-aid) refers to the transfer of funds from one level of government to another. While it takes many forms, the overall purpose of intergovernmental aid is to "improve the operation of a federal system of government finance" (Fisher 2018, 317). There are two broad categories of intergovernmental aid: categorical, and, general. Categorical grants are ones in which there are restrictions on how funds can be spent. In contrast, general grants are unrestricted, meaning the recipient government has discretion over how to spend the funds.

In 2017, municipalities' general revenue totaled $491.4 billion. Figure 1 provides a breakdown of that revenue.[1] As Figure 1 highlights, municipalities are mainly reliant on "own source revenue"—which are taxes and fees authorized and collected by the municipality (excluding intergovernmental transfers)—for their budgets, but, they do receive intergovernmental aid from both the federal and state governments. While states provide more aid to municipalities than the federal government, most state aid is restricted for specific purposes. In 2017, municipalities received a total of $83.8 billion from state governments, and, nearly half of that amount was restricted for education and public welfare programs (Census of Governments 2017). Unrestricted state aid accounted for just 3 percent of municipalities' total revenue in 2017.

Figure 1: Municipalities' General Revenue by Major Source (2017, Total = $491.4 billion)

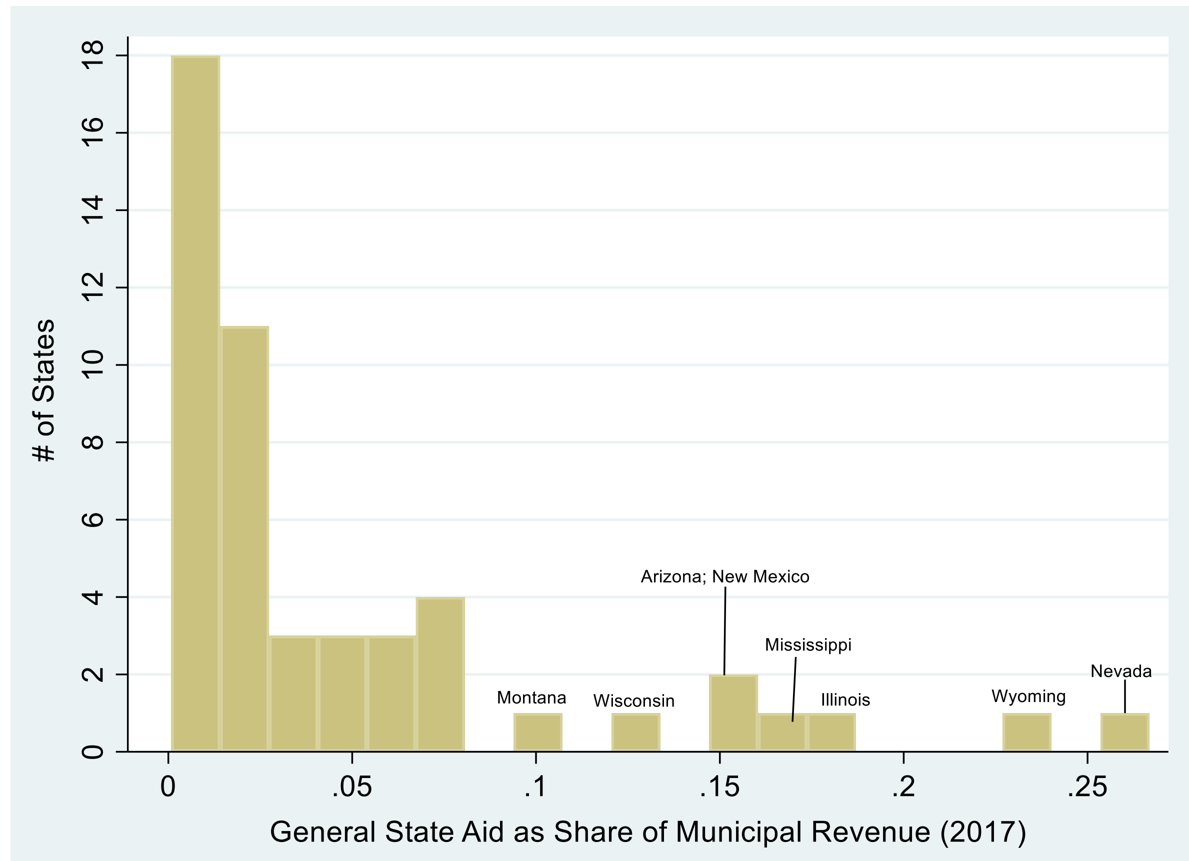


Source: Authors' analysis of the Census of Government Finances 2017.

Although in aggregate unrestricted aid accounted for a small portion of municipal governments' revenue, there is a wide range among the 50 states. In Nevada, unrestricted state aid accounted

for 27 percent of municipalities' revenue, and, in contrast, there were 11 states in which unrestricted state aid was less than 1 percent of municipalities' total revenue. Figure 2 shows the range in unrestricted state aid as a percentage of municipalities' total revenue in 2017. As Figure 2 highlights, in most states, unrestricted aid accounts for less than 5 percent of municipalities' revenue. In only eight states did unrestricted state aid account for at least 10 percent of municipalities' total revenue. Because the data is so positively skewed, we use median values throughout this report.

Figure 2: Unrestricted State Aid as Share of Municipal Revenue (2017)



Source: Authors' analysis of the 2017 Census of Government Finances

Importantly, our study does not address what factors account for variation in state aid between states or between municipalities within states. In addition, we do not evaluate whether current levels are adequate to fulfil their intended purposes, and/or, if municipalities perceive they have sufficient state support. All three topics are fruitful avenues for future research.

One possibility for the wide variation in aid levels is that states that provide little aid to municipalities may be more permissive in the taxing authority they give to their local governments. However, since the 1970s, and, the 'tax revolt,' as exemplified by Proposition 13 in California, there has been a national trend of limiting local governments' revenue-raising capabilities through tax caps and other limitations (Advisory Committee on Intergovernmental Relations 1995; Kincaid 1999; Mullins and Joyce 1996; Walker 1991). The range in unrestricted

state aid also reflects municipalities' unique fiscal policy space, which varies both between and within states depending on the degree of fiscal autonomy within which states permit their municipalities to operate (Pagano and Hoene 2018).

Data Sources Overview

To address our research interest of identifying policies and laws that protect unrestricted state aid to municipalities, we used several data sources and techniques. We used the 2017 Census of Governments dataset to understand how much aid states provide municipal governments in comparison to other types of governments; how significant unrestricted state aid is as a revenue source for municipalities; and, the variation in unrestricted aid among the states.[2] We also analyzed Census of Governments data for years 2007 and 2012 to examine trends in total aid, and, unrestricted aid over time at both the national and state levels. The 2007 and 2012 data were inflation-adjusted to 2017 dollars using the Bureau of Economic Analysis's Implicit Price Deflators for Gross Domestic Product, specifically, "Government consumption expenditures and gross investment" for state and local governments. Results of this analysis were used to inform our case study selection (discussed below). Last, the 2017 Census of Governments data was used to crosscheck unrestricted state aid information reported in documents produced by state and local governments.

One major research challenge to this topic is that a comprehensive list of all unrestricted state aid programs does not exist.[3] We aimed to fill this gap by identifying the main source of unrestricted aid in each state. To identify specific programs we examined state and municipal governments' budgets and comprehensive annual financial reports. Once identified we examined state laws and reports published by state agencies, commissions, and municipal government associations to gather details concerning statutory protections governing aid, and, the formulae used to distribute aid.

Last, we selected 10 states to examine in depth, with a focus on understanding their programs' policy aims and histories. Our interest was in understanding the program design, changes over time, and, policy rationale in places where unrestricted aid is an important source of municipalities' revenue. As such, we used a purposive sampling strategy, and, selected states that provide high levels of support (specifically in which general state aid was at least 5 percent of total revenue). In addition, we wanted our cases to vary in terms of types of programs, and, changes in real, per-capita state aid between 2007 and 2017. Table 1 shows the states we selected to examine in detail; the key criteria that informed our selection; and, general state aid as share of municipalities' total revenue in 2017.

Table 1: Selected Case Study States

	General State Aid Increased 2007–2017	**General State Aid Decreased 2007–2017**
Lump-Sum Program	None[4]	Minnesota (7%); Montana (10%); Wisconsin (12%)
Tax Earmarking	North Carolina (7%); Tennessee (5%)	Arizona (15%); Florida (6%); Idaho (6%); Illinois (18%); Nevada (27%)

Source: General State Aid figures from Authors' analysis of the 2017 Census of Government Finances

To understand the program histories in these states, we consulted news articles; journal articles; and municipal leagues' websites and reports; in addition to the above mentioned sources. Where applicable, more detailed explanations of analysis, and, references to sources are included throughout this report. We reference and use our case study states throughout this report. A profile of each state and their general aid programs is in Appendix C.

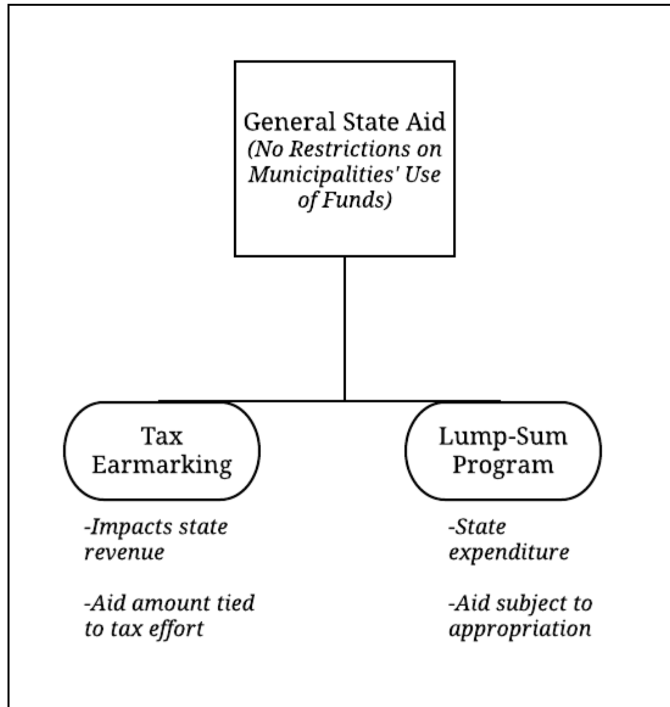
How Do States Provide Municipalities with Unrestricted Aid?

Key Types of Aid

States provide unrestricted aid to municipal governments in a variety of ways. A key distinction is whether aid is generated from a specific revenue source, or, from several sources. Tax earmarking (also referred to as revenue sharing) refers to all or a portion of revenue from a specific tax that is dedicated to a specific purpose. For example, gas taxes are often allocated to transportation spending. In recent years, voters in several states, including Connecticut and Illinois, have approved measures that constitutionally mandate that all transportation related taxes, not just the gas tax, be used exclusively for transportation related spending (Vock 2018). Tax earmarking (or "shared revenue") differs from authorized local taxes, which are taxes that are permitted by state law over which a local government has control and discretion. In some instances, revenue from authorized taxes is collected by a state agency, and, remitted to the applicable local government, but, is not considered shared revenue. For the purposes of this report, revenue from locally permitted and authorized taxes is not considered shared revenue. Shared revenue only refers to revenue generated from a state tax that, were it not earmarked to municipalities, would otherwise be a resource for the state government.

We contrast tax earmarking with lump-sum programs in which states provide unrestricted funds to municipal governments that are not linked to specific taxes. Figure 3 depicts these two types of unrestricted state aid.

Figure 3: Types of Intergovernmental Aid and Impact on State Budget



Source: Adapted from Fisher 2018

From the perspective of a state budget, tax earmarking reduces the total revenue available for the state to spend (effectively serving as a central tax collector for municipalities), whereas a lump-sum program is a state expenditure.

Using budgetary and financial documents from both state and local governments, we aimed to identify the key general program for each state, classifying them as either tax earmarking, or, lump-sum. Table 2 summarizes the results, and, shows how many states provide unrestricted aid via lump-sum programs versus tax earmarking, as well as, the median amount of support provided in 2017. We identified key programs in 38 states, with the majority (26 states) providing general aid via tax earmarking.

Table 2: How Do States Provide Unrestricted Aid?

Main Type of Unrestricted Aid	Number of States	Per-Capita Amount of General Aid, Median (2017)	Unrestricted State Aid as Share of Municipal Revenue, Median (2017)
Lump-Sum Program	12	$59.35	2.8%
Tax Earmarking	26	$41.28	2.9%

Not Identified/Not Available to All Municipalities	12	$7.98	0.8%

Source: Authors' analysis of the 2017 Census of Government Finances

For 12 states, we were either unable to identify a general aid program, or, the main source of unrestricted aid were payment-in-lieu of tax (PILOT) programs.[5] In some instances (like California), the state has no formal general aid program, but, some municipalities receive transfers from the state from unique arrangements and agreements. We do not consider PILOT programs to be general aid because they tend to be targeted to specific jurisdictions where a state government owns a significant amount of property. As such, PILOT funds, and, similar types of arrangements, tend to be available only to a limited number of qualifying municipalities. It may be the case that these 12 states, do not have a formal state aid program, as the Census of Governments category for unrestricted aid includes PILOT payments, as well as, "aid received distinctively as reimbursement for state-mandated tax relief programs or for facilities which have resulted in loss of local tax revenue" (2006, 4-25). As shown in Table 2, the median amount of aid that these 12 states provided, is much less than the median amount of aid in the other 38 states.

The median value of aid for states with a lump-sum program is slightly higher than for the tax earmarking states; however, of the eight states in which state aid account for at least 10 percent of municipalities' total revenue in 2017, all but three states provided aid via tax earmarking, as shown in Table 3.

Table 3: Main Source of General State Aid in States Where General State Aid is Large Share of Municipalities' Revenue

State	Unrestricted State Aid as Share of Municipal Revenue (2017)	Main Source of Aid
Arizona	15.0%	Tax Earmarking—General Sales + Income
Illinois	18.4%	Tax Earmarking—General Sales + Income
Mississippi	16.9%	Tax Earmarking—General Sales
Montana	10.4%	Lump-Sum—Entitlement Share Program
Nevada	26.7%	Tax Earmarking—General Sales
New Mexico	15.1%	Tax Earmarking—General Sales
Wisconsin	12.1%	Lump Sum—County and Municipal Aid
Wyoming	23.8%	Tax Earmarking—Income Tax

Source: Authors' analysis of the 2017 Census of Government Finances, state statutes, reports, and constitutions.

Lump-Sum Programs

One way states provide unrestricted aid to municipalities is via lump-sum programs. With lump-sum programs, the total amount of aid is either specified in state law, or, set by state lawmakers during the budget process. This contrasts with tax earmarking in which the total amount of aid is a function of tax collections. However, while state law may specify a floor or ceiling amount of funding for the lump-sum programs, nearly all are subject to appropriation. We identified 12 states that primarily provide aid via lump-sum programs. Those programs are captured in Appendix A, Table 6. Some programs were created to provide state support to replace preempted local taxes or tax restrictions, while others are needs-based programs that are meant to ensure all municipalities have a state-determined minimum level of resources. Minnesota and Montana offer contrasting examples of the different types of lump-sum programs.

Minnesota's Local Government Aid program was created as part of the Fiscal Disparities Act of 1971. The aim of the program is to provide state aid to municipalities whose spending needs exceed their property tax capacity, thereby minimizing disparities between communities. Determining the exact amount of aid each municipality receives is a complex process that involves a number of steps that take into account each municipality's population, housing stock, and property taxes (detailed in the profile of Minnesota in Appendix C). While the program is intended to ensure all municipalities have the capacity to support basic services, the program's funding is subject to annual appropriation, and, funding has been cut in the wake of state budget shortfalls. Facing budget deficits, Governor Pawlenty used his unallotment powers, which allows the governor to use emergency budget reduction powers to implement cuts when there is a deficit, and, cut the Local Government Aid program by 8.5 percent in fiscal year 2010, and, 19.1 percent in fiscal year 2011 (Schill 2010).

Montana's Entitlement Share Program (ESP) was created in 2001, as part of major tax reform (House Bill 124) that was intended to streamline state and local taxes. Prior to that legislation, the distribution of state and local taxes was complicated as local governments collected taxes; sent them to the state; and then, the state sent back portions of that revenue. This process was changed so that taxes were collected at the state level, and, the ESP was created to ensure municipalities received the same amount of revenue they did under the old system. In addition, the program was designed to make up for revenue losses local governments experienced due to property tax rate reductions enacted in 1999 (Senate Bill 184). Each local government's entitlement payment is based on the amount of revenue they received in 2001. Unlike other programs, Montana's ESP incorporates a growth factor that is based on state revenue for the three most recent fiscal years, with a maximum rate of 1.035 percent (see Cole n.d. for a detailed explanation of how the growth factor is calculated). Last, when legislative changes have financial impacts on local governments, the ESP payments are adjusted. For example, when public defender services were shifted from being the responsibility of county governments to the state, the ESP payments to county governments were reduced, since, they were no longer responsible for that service (Montana Association of Counties, n.d.).

Tax Earmarking

As previously highlighted, the majority of states (26) provide general aid to municipalities via tax earmarking. Income and general sales taxes[6] are major revenue sources for state governments. Among the 50 states, the vast majority (38) have both income and general sales taxes. Only 14 states, however, share income and general sales tax revenue with municipalities, and, it is most common for general sales tax revenue to be shared. Three states (Arizona, Illinois, and Tennessee), earmark both a portion of their income and sales tax collections to municipal governments as unrestricted aid. Appendix A details which tax is the main source of unrestricted aid for the 26 states, the relevant state statute that governs that tax sharing, and, the portion of collections that went to local governments in 2019.

Table 4 shows the median amount of per-capita general state aid for the 26 states that provide aid via tax earmarking by group. As highlighted in Table 4, the median amount of per-capita state aid is higher in states that share income and/or general sales tax revenue with municipalities than the 12 states that do not. Overall, states that provide aid via tax earmarking of both income and sales taxes provide the most unrestricted state aid to municipalities.

Table 4: Median Amount of General State Aid by Tax Earmarking Group

Main Source of General Aid	# States	Per-Capita Amount of General Aid, Median (2017)	Unrestricted State Aid as Share of Municipal Revenue, Median (2017)
Income Tax	1	$21.63	2.0%
Sales Tax	10	$88.84	7.3%
Both Income and Sales Tax	3	$195.82	15.0%
Other Tax	12	$16.12	1.3%

Source: Financial Data from Authors' analysis of the Census of Governments 2017

Among the 12 states that provide aid via tax earmarking from sources other than income and general sales taxes, it was most common that excise tax revenue was shared with municipalities. The largest sources of unrestricted aid for those 12 states are detailed in Appendix A, Table 9. Colorado and Oregon, for example, both share revenue from the taxation of recreational marijuana with municipalities. In most instances, these taxes are not major revenue sources for the state, and, are, in general, minor when compared to income and general sales taxes. For example, Colorado collected a total of $264 million in taxes and fees from recreational marijuana in FY2018, whereas income tax collections that year exceeded $8 billion (Colorado Joint Budget Committee 2019, 33).

Last, we found that states often share revenue from multiple taxes with municipalities. Seven of our case study states provide general state aid via tax earmarking, and, only two (Florida and Idaho) share revenue from only one tax with municipalities. Tennessee earmarks portions of seven taxes to municipalities; North Carolina shares revenue from six taxes; Nevada earmarks revenue from five taxes; and, Arizona and Illinois earmark revenue from three taxes.

How Is General State Aid Allocated and Is State Aid Guaranteed?

Do State Laws Guarantee General Aid?

The general aid programs of the 38 states we identified programs for are governed by state laws. Constitutional provisions provide strong protection for aid; however, these are rare. Louisiana is the only state that constitutionally guarantees a minimum level of state aid; the minimum amount guaranteed is $90 million, and, the legislature can appropriate additional sums (Louisiana State Constitution Article VII, Section 26). In Illinois, all revenue from the state's personal property replacement tax is constitutionally dedicated to local governments and school districts (Illinois State Constitution Article IX, Section 5); however, the distribution of that aid is determined by state law, and, the actual amount of aid fluctuates with tax collections.

Both lump-sum programs and tax earmarking are commonly codified in state law. For example, Chapter 39.2 of Title 57 of North Dakota's Century Code is specifically dedicated to the sales tax. Section 26.1 of that Chapter details what fraction of sales tax collections are allocated to local governments in North Dakota. General aid programs, both lump-sum and tax earmarking, that are governed by state law can be augmented by legislative, or (where applicable), voter-initiated action. Because of this, general aid is not guaranteed with absolute certainty.

While tax earmarking may be less vulnerable to legislative cuts because the amount of aid is not decided during the budget process, the amount of aid municipal governments receive will vary from year-to-year as tax collections are tied to economic cycles. In addition, any changes to the relevant tax (such as the base and rate) will impact the amount of general aid municipalities receive. Last, the portion of tax collections allocated to municipal governments can be changed by legislative action.

<u>The Great Recession, State Budget Deficits, and General State Aid</u>

Absent constitutional protections, state aid programs can be reduced or augmented by legislative action. For lump-sum programs, the amount of aid is often determined as part of the overall state budget process. With tax earmarking, state lawmakers can reduce state aid by changing the portion of tax collections allocated to municipal governments. In addition, any change to a tax (that is rate and/or base) will impact how much general aid municipalities receive, even if state lawmakers do not explicitly intend to increase or decrease state aid. Last, general aid tied to tax earmarking can be volatile as it is linked to the broader economy. Economic downturns can depress tax collections, which in turn reduces general state aid.

In the wake of the Great Recession governments throughout the United States were faced with large budget deficits. One way states balanced their own budgets was cutting aid to local governments, which forced local leaders to grapple with a "new normal" of less intergovernmental revenue (Maciag and Wogan 2017). One illustration of state aid reduction is that, facing a budget shortfall in 2011, Ohio Governor John Kasich proposed significant cuts to the state's local aid program (Cooper 2011). Those 2011 cuts were in addition to previous reductions in aid from 2005, when, the Ohio General Assembly approved legislation to phase out the state's tangible personal property tax (Maciag and Wogan 2017). Such cuts in unrestricted

state aid took place at the same time that local governments were experiencing shortfalls in own-source revenue. In aggregate, general state aid has not rebounded since the Great Recession, and, real, per-capita aid was 21.8 percent less in 2017 than it was in 2007.

Table 5 shows the change in real, per-capita general state aid nationally, and, for the 17 states in which unrestricted state aid was at least 5 percent of municipalities' total revenue in 2017, with the case study states shaded in grey.

Table 5: Changes in Real, Per-Capita General State Aid for Municipalities (2007-2017)

	State Aid Group	% Change in Real per Capita Unrestricted State Aid			Unrestricted State Aid per Capita (in Real Dollars)			Unrestricted State Aid as % General Revenue (2017)
		2007-17	2007-12	2012-17	2007	2012	2017	
United States	**N/A**	***-22%***	***-19%***	***-4%***	***$61.38***	***$49.87***	***$47.97***	***3%***
Arizona	Tax Earmarking	-23%	-34%	16%	$252.90	$168.14	$195.82	15%
Florida	Tax Earmarking	-17%	-26%	12%	$65.66	$48.43	$54.26	6%
Idaho	Tax Earmarking	-10%	-3%	-7%	$55.55	$53.83	$50.09	6%
Illinois	Tax Earmarking	-4%	-12%	9%	$297.62	$261.52	$285.27	18%
Massachusetts	Lump-Sum Program	-30%	-35%	8%	$171.34	$110.61	$119.63	5%
Michigan	Tax Earmarking	-34%	-33%	-2%	$105.91	$71.23	$69.68	8%
Minnesota	Lump-Sum Program	-23%	-28%	6%	$127.94	$92.75	$98.33	7%
Mississippi	Tax Earmarking	-10%	-11%	1%	$178.48	$158.87	$159.76	17%
Montana	Lump-Sum Program	-2%	-4%	2%	$80.36	$77.01	$78.51	10%
Nevada	Tax Earmarking	-26%	-35%	14%	$276.60	$180.92	$205.70	27%
New Jersey	Lump-Sum Program	-41%	-28%	-18%	$149.74	$108.08	$88.84	7%
New Mexico	Tax Earmarking	-36%	-32%	-6%	$277.43	$189.08	$178.24	15%
North Carolina	Tax Earmarking	34%	20%	11%	$39.02	$46.98	$52.16	7%
North Dakota	Tax Earmarking	107%	44%	44%	$52.15	$75.19	$107.99	7%

Tennessee	Tax Earmarking	1%	-10%	12%	$61.90	$55.89	$62.54	5%
Wisconsin	Lump-Sum Program	-35%	-3%	-33%	$193.73	$188.48	$125.37	12%
Wyoming	Tax Earmarking	-40%	-25%	-20%	$464.20	$347.12	$277.81	24%

Source: Authors' analysis of the Census of Government Finance 2007; 2012; 2017

The median decline in in real, per-capita state aid for the 12 states with lump-sum programs was greater in the 2012 to 2017 period (median value = -11 percent) than 2007 to 2012 (median value = -6 percent). The trend for the tax earmarking states was reversed—a 0.08 percent median reduction between 2012 and 2017, but, a much larger median reduction between 2007 and 2012 of 10 percent. Because tax earmarking identifies a specific revenue source for sharing, and, because the sales and income tax tend to be earmarked, it is not surprising that the 2007–2012 period witnessed a large reduction in tax earmarked revenue to municipalities. The economy declined sharply in 2007–2009 and these revenue sources, which are linked to tax earmarking, declined considerably during that era. The decline in lump-sum programs was much steeper after 2012, a decision which, in-part, reflects a deliberate reduction by the state.

Among the ten case study states, all but two experienced decreases in real, per-capita state aid between 2007 and 2017, as shown in Table 5. Changes in real-state aid occurred for a variety of reasons, ranging from economic volatility to alleviating state budget deficits by cutting aid.

For all seven states in the case study group that provide aid via tax earmarking, state aid was impacted by the economic downturn. In some instances, the economic downturn is solely responsible for the declines in real, per-capita state aid. In others, legislative action that impacted either tax collections and/or the distribution of aid, also, account for the changes in unrestricted state aid shown in Table 5. In the case of Florida, the change in unrestricted state aid is attributable to fluctuations in sales tax collections tied to the wider economic downturn. State aid in Florida is almost entirely derived from the state's general sales tax.[7] The sales tax rate has been unchanged since 1988, and, the portion of total sales tax revenue distributed to county and municipal governments has been approximately 11 percent every year since 2001.[8] Similarly, Idaho's decline in real, per-capita state aid can be entirely attributed to economic volatility.

In addition to changes in aid tied to the Great Recession's impact on tax collections, in some instances, tax laws were changed during the 2007–2017 period that impacted general state aid. In Illinois when state lawmakers temporarily increased the corporate and personal income tax rates in 2011, for example, they also reduced the fraction of collections that went to local governments, which meant that municipalities did not benefit from the tax rate increases (Chicago Metropolitan Agency for Planning 2011).

In Arizona, income tax revenue accounts for nearly 50 percent of the general state aid that goes to municipalities; this is referred to as "Urban Revenue Sharing" funds. The total amount of Urban Revenue Sharing funds that municipalities receive is 15 percent of net income tax revenue from the fiscal year two years preceding the current year (that is FY2020 amount equals 15 percent FY2018 collections). The change in unrestricted state aid shown in Table 5 is tied to the

economic downturn and several legislative changes. Arizona's income tax rates were decreased in tax years 2007 and 2008, and, because of the reduced rates and economic downturn net income tax collections decreased from $4.6 billion in FY2007 to $2.8 billion in FY2012 (Arizona Department of Revenue 2009, 73; Arizona Department of Revenue 2013, 66). The decline in collections meant state aid would also decline. Since aid to local governments in a given fiscal year is based on the net collections from two years prior, this meant that the income tax reductions did not impact state aid until 2009. However, the amount of Urban Revenue Sharing municipalities received in FY2009 was an anomaly. Instead of aid being solely tied to tax collections, lawmakers set the amount as part of House Bill 2871 of the 2006, 2nd Regular Session. As a result, in FY2009, the amount of aid from the Urban Revenue Sharing program was higher than it otherwise would have been.

North Carolina provides revenue to municipalities from multiple taxes, with the majority coming from the electricity sales tax. The increase in state aid in North Carolina shown in Table 5 is tied to major tax reform legislation from 2015 that impacted electricity taxes (State Law 2015-241). Prior to the 2015 changes, there had been two separate electricity taxes—a franchise tax on electricity, and, a separate sales and use tax on electricity. Revenue from both taxes was supposed to be allocated to local governments; however, the state had historically retained the portion of electricity sales tax revenue that should have gone to local governments. Under State Law 2015-241, the electricity taxes have been combined, and, 44 percent of collections are now earmarked to municipalities, and, all those funds have gone to municipalities. Thus, a main factor behind the increase in state aid in North Carolina is that the state stopped retaining funds that were earmarked to municipalities.

The change in Tennessee's unrestricted state aid shown in Table 5 is also tied to pieces of major tax legislation, specifically impacting the Hall Income Tax and gross receipts tax. Legislation was passed in 2015 to phase out the Hall Income Tax, and, the tax rate is scheduled to decrease every year until it reaches zero by 2022 (Locker 2016). While that change reduced state aid, laws passed in 2009 and 2010 that were directed at the Tennessee Valley Authority's (TVA) PILOT payments (also referred to as "gross receipts tax—TVA"), increased total unrestricted state aid (Public Chapter 475, Acts of 2009; Public Chapter 1035, Acts of 2010). The 2009 law allowed new entities to wholesale electricity in the state, while the 2010 law required those entities "to make PILOTs equivalent to those TVA would have made" (Tennessee Advisory Commission on Intergovernmental Relations n.d.). As a result, state aid from the gross receipts tax—TVA increased from $122 million in FY2009 to $141.6 million in FY2010 (State of Tennessee Budget Reports for FY2012 and FY2011).

For the three case study states that provide aid via lump-sum programs (Minnesota, Montana, and Wisconsin), the changes in unrestricted aid are due to legislative action specifically targeting those programs. During the 2007–2017 period, state lawmakers in both Minnesota and Wisconsin cut funding for the lump-sum programs to address state budget deficits. Another factor is that in the case of Wisconsin, funding for its largest aid program was nearly the same amount in nominal dollars between fiscal years 2012 and 2017 (Horton and Olin 2019, 2), which meant that in real, inflation-adjusted dollars, state aid decreased over time. Similarly, Minnesota state law has set the maximum amount of funding for its lump-sum program at $564.40 million per year starting with FY2021, and, as a result, the amount of aid municipalities receive will

decline in real, inflation-adjusted dollars over time. Montana's lump-sum program has a growth factor built into it; however, aid levels were frozen for fiscal years 2013 and 2014, which meant they were cut in real dollars.

What Formulae Do States Use to Allocate Aid?

Three common approaches for distributing unrestricted state aid are:

- origin of taxation or consumption (also referred to as "situs-based"), which effectively means that the state is the collection agent, thereby reducing municipal administrative costs, and, transfers funds to municipalities;
- population, which implicitly redistributes funds without regard to the city's or residents' needs, nor to the city's or residents' contribution; and
- equalization or needs-based, which explicitly redistributes funds for the express purpose of providing a floor of revenue to each city, or, to more equitably distribute resources among all cities.

In practice, states allocate aid to municipalities using a variety of approaches. How states allocate aid to municipalities is often tied to the program type (lump-sum vs. tax earmarking), as well as, policy intent/origin of the program, although the policy intent is not always clear, and, in some instances unknown. For example, a report about revenue sharing done by the Tennessee Advisory Commission on Intergovernmental Relations bluntly stated that there is no clear answer as to why the state shares tax revenue with local governments because "no policy explanations…are found in the statutes" (Green 2004, vii). The formula method used for the major tax earmarking or lump-sum program in each state is shown in Appendix B.

With tax earmarking, state laws typically detail what portion of total collections is earmarked for municipalities, and, how that revenue is to be distributed to individual municipalities. For example, in Illinois, approximately 16 percent of general sales tax collections are earmarked to local governments, and, that revenue is allocated to local governments based on population. Using a population-based formula, rather than a point-of-origin formula (or returning sales tax receipts to the jurisdictions where the sales were transacted), means that the tax earmarking of sales tax revenue has a redistributive effect in Illinois.

In some instances, state aid is meant to substitute local taxes, or, as part of a larger piece of legislation that also restricts local governments' taxing powers. For example, voters in Arizona approved a measure (Proposition 200 of 1972) that prohibited local income taxes, but, also earmarked a portion of state income tax collections to local governments. The proposition was motivated in part, over concern that municipalities were considering municipal wage or income taxes to generate sufficient revenue to keep pace with increasing service costs tied to inflation and population growth. Several states' aid programs were designed to substitute for foregone tax revenue due to state-initiated tax limitations, such as those in Idaho; Minnesota; Nebraska; and New Jersey.

Equalization or needs-based formulas are typically meant to ensure that all municipalities have a minimum level of resources to support basic services. Florida's Municipal Revenue Sharing,

which earmarks a portion of sales tax collections to municipalities, is an example of a needs-based formula. Aid is distributed to individual municipalities using an apportionment factor that takes into consideration the municipality's population; point of sales tax collection; and, the municipality's ability to raise revenue based on real and personal property values. Similarly, Minnesota's Local Government Aid program uses a needs-based formula. Minnesota's lump-sum program is meant to minimize disparities among municipalities, and, uses different formulas based on the municipality's population to determine overall need. The amount of aid a municipality ultimately receives is the difference between their need, and, tax capacity (the formula is described in detail in Appendix C). While equalization and needs-based formulas can achieve equity goals, they are administratively more complex to administer than situs or population approaches because they require collection of contemporary data for a variety of factors.

In some states, aid is allocated to local governments using a "base amount" that was set either when the aid program began, and/or, when the program was significantly changed. By way of illustration, the method for distributing sales tax revenue recently changed in Idaho. State sales tax revenue had been shared with local governments in Idaho for many decades, and, the City-County Revenue Sharing program was created in response to a 1978 voter initiative and subsequent state legislation that limited local governments' ability to raise revenue from property taxes. Until FY2021, approximately 3.2 percent of sales tax collections were earmarked to municipalities for the City-County Revenue Sharing program,[9] with half of the funds allocated to municipalities based on population, and, the other half based on property values within a municipality relative to other municipalities. The Association of Idaho Cities criticized the formulas as outdated, and, the method for distributing aid was substantially changed by House Bill 408 of the 2020 legislative session. The amount of aid municipalities received in FY2020 was designated their base amount of aid. Starting in FY2021, the amount of aid a municipality receives is calculated using the base value, which is increased or decreased proportionate to the change in sales tax collections. In other words, if sales tax revenue decreases from year-to-year, then the amount of aid a municipality receives will also decrease. The formula for determining the ultimate amount of aid also takes into consideration population, with the aim of ensuring cities with growing populations see increases in state aid.

Conclusion

Approximately, 22 percent of total municipal revenues are derived from state governments, but, only a small portion of that revenue can be used for whatever purposes and projects the municipalities choose. Unrestricted state aid, although not a large portion of municipal budgets for the average city, can be of considerable consequence for many cities. This study demonstrates that municipalities in eight states received more than 10 percent of their total revenues from the state with no strings attached. For Nevada's cities, at the upper limit of the range, 27 percent of their total revenue is from the state government.

The study further separated unrestricted state aid into two categories: (1) 'lump-sum' transfers from the state to municipalities; and (2) 'tax earmarking' which is a transfer from a specified revenue source to the municipalities. During the Great Recession, both forms of unrestricted aid

were reduced, although municipalities that received tax earmarked state aid experienced a substantial drop in aid in the first part of the Great Recession (2007–2012) as a consequence of that aid being linked to elastic revenue sources. The decline in state aid from lump-sum transfers was also substantial, but, the decline was more severe at the end of the period (2012–2017) than the early part of the Great Recession (2007–2012).

Regardless of the type of unrestricted state aid that municipalities received, most municipalities experienced a decrease in constant-dollar, per capita state aid between 2007 and 2017. Among the 38 states with a lump-sum or tax earmarking program, state aid declined in 23 states, and, increased in 15. In the 15 states where real, per-capita aid increased, unrestricted state aid is a very small share of municipalities' total revenue (median value of 1.4 percent). For the municipalities in the 23 states that experienced declines, state aid is a more significant revenue source, with the median value of unrestricted aid accounting for 6.5 percent of municipalities' total revenue.

As this study demonstrates, municipalities have, in general, experienced a reduction in state aid since 2007, although a few have received more state support. An examination of average support masks the wide variation across the state landscape. Indeed, the variation in state aid to municipalities for general support based on the municipalities' priorities is substantial.

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Appendix A: Lump-Sum and Tax Earmarking Details

Lump-Sum

Table 6: Lump-Sum Programs

State	Fund/Program Name(s)	Comments	Statutory Authority
AK	Community Assistance Fund	Funding is subject to appropriation, but state law puts a ceiling on the total amount. Appropriation cannot exceed $30 million or be such that the fund's balance exceeds $90 million.	Alaska Statutes Title 29. Municipal Government § 29.60.850
AR	Municipal Aid	Annual funding is subject to appropriation.	A.C.A. § 19-5-601
LA	Revenue Sharing Fund	State constitution requires a minimum of $90 million be distributed to local governments (parishes, taxing bodies and municipalities) annually.	Louisiana State Constitution Article VII, Section 26
MD	Disparity Grants	The aim of the program is to provide financial support for low-wealth jurisdictions, and annual funding is subject to appropriation. Funding goes to county governments and the City of Baltimore.	MD Local Gov Code § 16-501
MA	Unrestricted General Government Local Aid	Funding is subject to annual appropriation.	Part I, Title IX, Chapter 58, Section 18C
MN	Local Government Aid	The policy intent of the program is property tax relief.	Minnesota Statutes, Chapter 477A
MT	Entitlement Share Program	The program was created in 2001, and under it municipalities exchanged dedicated revenue "for an entitlement share of the state general fund" (Chapter 574, Laws of 2001).	MCA 15-1-121
NE	Municipal Equalization Fund	The program was created in 1996 as part of a larger legislative package concerning property taxes and the implementation of property tax limitations. State aid is provided explicitly to "equalize the property tax capacity of incorporated cities."	Neb. Rev. Stat. 77-27,139.01 to 77-27,139.04
NJ	State Aid	"State aid" is used as an umbrella in New Jersey for several aid programs, and the two main ones are: Energy Tax Receipts Property Tax Relief and Consolidated Municipal Property Tax	NJ Rev Stat § 52:27D-439; 52:27D-442

		Relief Aid. Both programs provide state aid as replacements for revenue previously generated from local taxes.	
NY	Aid and Incentives for Municipalities (AIM) Program	Funding is subject to appropriation. The AIM program was created during budget year 2005-2006, and replaced what had been several, separate programs.	Chapter 59 of the Laws of 2019
SC	State Aid to Subdivisions	Annual amount is 4.5% of the previous year's state General Fund base.	State Aid to Subdivisions Act
WI	County and Municipal Aid		WI Stat § 79.035

Source: Authors' review of state statutes and state constitutions

Income Tax

As of 2019, there were 43 states that had some form of state-level corporate and personal income taxes. Of those 43 states, only four had a portion of income tax collocations earmarked for municipalities. Table 7 lists the states that share income-tax revenue, the portion of total collections that is statutorily earmarked to local governments, and, the relevant statutory authority. With the exception of Ohio, the states that share income tax revenue with municipalities do not permit local income taxes.

Table 7: Summary of State Income Tax Revenue Sharing[10]

State	% of State Income Tax Collections Earmarked to Local Governments*	Special State Fund for Distributing Funds to Local Governments	Statutory Authority	Local Income Tax Permitted?
AZ	15%	Urban Revenue Sharing	A.R.S. § 43-206	N
IL	6.06% of personal; 6.85% of corporate*	Local Government Distributive Fund	30 ILCS 105/5.29; 30 ILCS 115/1	N
OH	4%*[11]	Local Government Fund	Ohio Const. Art. XII, 9; Ohio Revised Code 5747.03; 5747.50	Y
TN[12]	3/8 of collections*		Tenn. Code Ann. § 67-2-119	N
*Note: In some instances the data reflects share of state revenue shared several types of local governments, and, not solely municipalities. The applicable states are noted with an asterisk next to the percentage.				

Source: Authors' review of state statutes and state constitutions

Sales Tax

As of 2019, 45 states had some form of a state-level general sales tax. Of those 45 states, less than a third (13) allocate a portion of state sales tax collections to municipalities for unrestricted use. Nevada, for example, has state-level tax rates (the Basic City and County Relief Tax; and Supplemental City-County Relief Tax) in addition to its general rate, and, the revenue from those rates are exclusively for local governments. The majority of states that share state sales tax revenue with municipal governments also permit local sales taxes. Table 8 lists the states that share sales tax revenue with municipalities; the portion of total collections that was distributed to local governments in FY2019; and, the relevant statutory authority.

Table 8: Summary of State Sales Tax Revenue Sharing with Municipalities[13]

State	% of State Sales Tax Collections Shared with Local Governments (FY 2019)*	Special State Fund for Distributing Funds to Local Governments	Statutory Authority	Local Tax Permitted?
AZ	22%		A.R.S. § 5029D1, and 5029I	Y
CT	7%	Municipal Revenue Sharing Account (starting FY2018)	Connecticut General Statutes 4-66l	N
FL	8%*	Half-Cent Sales Tax Clearing Trust Fund; Municipal Revenue Sharing Trust Fund	F.S. 218.61; 212.20(6)(d)6	Y
ID	12%*	Revenue-Sharing Account	Idaho Statutes 63-3638(10)(a)	Y
IL	37%*	Local Government Tax Fund	30 ILCS 105/6z-18	Y
ME	2% of receipts to state General Fund	Local Government Fund and Disproportionate Tax Burden Fund	30-A MRSA §5681	N
MI	10% (estimate)		MCL 205.75, MCL 141.901, and Michigan Constitution, Article IX, Section 10	N
MS	14%		Miss. Code Ann. § 27-65-75	Y
NV	N/A	Local Government Tax Distribution Account	NRS 372.780	Y
NM	7%		NMSA § 7-1-6.4	Y

ND	9%*	State Aid Distribution Fund	North Dakota Century Code 57-39.2-26.1	Y
TN	4%		Tennessee Code 67-6-103	Y
WY	31%*		Wyo. Stat. § 39-15-111; Wyo. Stat. § 39-16-111	Y
*Note: In some instances the data reflects share of state revenue shared several types of local governments, and not solely municipalities. The applicable states are noted with an asterisk next to the percentage.				

Source: Authors' review of state statutes and state constitutions, and portion of revenue shared in FY2019 from review of state revenue reports and budgets (typically produced by Governors' Offices and Departments of Revenue).

Other Taxes

Table 9 highlights the array of non-income and non-sales taxes that are distributed by the 12 states that do some form of tax earmarking. This is not, however, a comprehensive list of all taxes that have some portion earmarked to local governments.[14]

Table 9: Other Tax Earmarking[15]

State	Tax	Distribution to Municipal Governments	Statutory Authority
AL	Financial Institutions Excise Tax	33.3% of collections[16]	Act 2019-284
CO	Retail Marijuana Sales Tax	10% of collections go to "cities, towns and unincorporated areas"	C.R.S. 39-28.8-203
IN	Riverboat Wagering Tax	$33 million annually distributed to local governments	IC 4-33-13
KS	Liquor Excise Tax	70% of collections goes to counties and municipalities via the Local Alcoholic Liquor Fund	KS 79-41a04
NH	Meals and Rentals Tax	40% of collections goes to unincorporated towns, unorganized places, towns, and cities	RSA 78-A:26
NC	Electricity Sales Tax	44% of collections goes to municipalities	G.S. 105-164.44K
OK	Alcoholic Beverage Tax	One-third of ninety-seven percent (1/3 of 97%) of collections goes to cities and towns	37A OK Stat § 37A-5-104

OR	Marijuana Tax	10% of collections goes to counties and municipalities	ORS 475B.759
SD	Bank Franchise Tax	73.33% of collections goes to counties and municipalities	
VA	Recordation and Grantor Tax Distribution	$40 million annually distributed to counties and municipalities	Code of Virginia §58.1-816
WA	Liquor Excise Tax Sharing	35% of collections distributed to local governments (80% goes to municipalities, 20% goes to counties)	RCW 82.08.160 and 82.08.170
WV	Additional Tax on the Severance, Extraction and Production of Coal	25% of collections goes to All Counties and Municipalities Revenue Fund	West Virginia Code §11-13A-6

Source: Authors' review of state statutes and state constitutions

Appendix B: Aid Formula Details

Table 10: Method for Distributing State Aid to Municipal Governments

State	Type of Aid	Program Name	Method for Distribution to Local Governments
AK	Lump-Sum Program	Community Assistance Fund	Population
AL	Tax Earmarking	Financial Institutions Excise Tax	Situs-based
AR	Lump-Sum Program	Municipal Aid	Population
AZ	Tax Earmarking	Income Tax; Sales Tax	Population (both)
CO	Tax Earmarking	Retail Marijuana Sales Tax	Situs-based
CT	Tax Earmarking	Sales Tax	Starting FY2020 formula; amounts for fiscal years 2017-2019 specified in state statute.
FL	Tax Earmarking	Sales Tax	Formula
ID	Tax Earmarking	Sales Tax	Half of the distribution is based on population, and the other half is based on property values.
IL	Tax Earmarking	Income Tax; Sales Tax	Population (both)
IN	Tax Earmarking	Riverboat Wagering Tax	Population (for places without a riverboat casino)

KS	Tax Earmarking	Liquor Excise Tax	Population and Situs-based
LA	Lump-Sum Program	Revenue Sharing Fund	Population and the “number of homesteads in each parish in proportion to population and the number of homesteads throughout the state.”
MA	Lump-Sum Program	Unrestricted General Government Local Aid	Population
MD	Lump-Sum Program	Disparity Grants	Formula based on jurisdiction’s per capita income tax versus statewide per capita income tax.
ME	Tax Earmarking	Sales Tax	Formula
MI	Tax Earmarking	Sales Tax	Population
MN	Lump-Sum Program	Local Government Aid	Formula, taking into consideration population and need
MS	Tax Earmarking	Sales Tax	Situs-based
MT	Lump-Sum Program	Entitlement Share Program	Formula involving an annual growth factor.
NC	Tax Earmarking	Electricity Sales Tax	There are two components of this: “Franchise Tax Share” and “Ad Valorem Share” Franchise Tax Share is the amount of revenue municipalities received in FY2014 from the electricity franchise tax. Ad Valorem Share is distribution of revenue that remains after the Franchise Tax Share, and is distributed passed on property taxes.
ND	Tax Earmarking	Sales Tax	Population
NE	Lump-Sum Program	Municipal Equalization Fund	Formula involving jurisdiction’s property tax relative to statewide tax.
NH	Tax Earmarking	Meals and Rentals Tax	Population
NJ	Lump-Sum Program	State Aid	Formulas
NM	Tax Earmarking	Sales Tax	Situs-based
NV	Tax Earmarking	Sales Tax	Basic City-County distribution based on point of collection; Supplemental differs between municipalities.

NY	Lump-Sum Program	Aid and Incentives for Municipalities (AIM) Program	Formula
OH	Tax Earmarking	Income Tax	Population
OK	Tax Earmarking	Alcoholic Beverage Tax	First allocated to counties based on area and population. County then distributes it to municipal governments within the county on a per-capita basis.
OR	Tax Earmarking	Marijuana Tax	Formula
SC	Lump-Sum Program	State Aid to Subdivisions	Population
SD	Tax Earmarking	Bank Franchise Tax	Based on proportion of the real property taxes levied in each taxing subdivision in the previous year.
TN	Tax Earmarking	Income Tax; Sales Tax	Situs-based (income tax); Population (sales tax)
VA	Tax Earmarking	Recordation and Grantor Tax Distribution	Situs-based
WA	Tax Earmarking	Liquor Excise Tax	Population
WI	Lump-Sum Program	County and Municipal Aid	Formula
WV	Tax Earmarking	Additional Tax on the Severance, Extraction and Production of Coal	Population
WY	Tax Earmarking	Sales Tax	Situs-based and population

Source: Authors' review of state statutes, state constitutions, and reports prepared by legislative bodies and/or state offices.

Appendix C: Case Study State Profiles

Arizona

Sources of Aid and Total Amount

The State of Arizona provides unrestricted aid to municipalities via tax earmarking, specifically, the transaction privilege (or "sales") tax; income tax; and, vehicle license tax revenue with municipalities. As Table 11 highlights, the income tax is the largest source of unrestricted aid. Because unrestricted aid is provided via tax earmarking, this means that the amount of aid will fluctuate from year-to-year, and, the volatility of economic cycles. In addition, changes to rates, the tax base, and/or other administrative changes can impact the amount of unrestricted aid.

Table 11: Arizona Unrestricted State Aid by Source

Tax	FY2020 Estimated Amount to Municipalities ($ Millions)
Income Tax	$737.6
Transaction Privilege Tax	$587.0
Vehicle License Tax	$273.2
Total	**$1,597.8**

Source: League of Arizona Cities & Towns 2019

Origin of Aid and Policy Goal/Intent
Income Tax: Shared with municipalities since 1972, and was a voter approved legislative initiative (the Arizona Urban Revenue Sharing Fund and Tax Amendment, also known as Proposition 200). That proposition prohibited local governments from imposing a local income tax, but, required a portion of the state income tax be earmarked to municipalities (Bolin 1972, 37).

Transaction Privilege Tax: Shared with municipalities since 1942, and, was a voter approved legislative initiative. Proponents of the measure framed it as necessary to address municipalities' financial burdens that stemmed from unfunded state mandates (Moore 1942, 94-95).

Vehicle License Tax: Shared with municipalities since 1941, when the tax was created. The vehicle license tax was created from a voter approved amendment to the Arizona Constitution and required that revenue be distributed to the state, counties, school districts, cities, and towns (Arizona Constitution, Article IX, Section 11). It was left to the legislature, however, to determine the distribution amounts.

Current Aid and Earmark Amounts
Income Tax: 15 percent of income taxes from the fiscal year two years preceding the current year (that is FY2020 amount equals 15 percent FY2018 collections) (A.R.S. § 43-206).

Transaction Privilege Tax: 25 percent of the "distribution base" (A.R.S. § 42-5029). The "distribution base" refers to tax revenue derived from specific business classifications (A.R.S. § 42-5010). In 2019, transaction privilege tax collections totaled $6.57 billion, and, of that amount, $2.24 billion (or 34 percent) was the distribution base (Arizona Department of Revenue 2019, Table 4). Of that distribution base, 25 percent (or approximately $560 million) is dedicated to municipalities.

Vehicle License Tax: 26.6 percent of collections are earmarked to municipalities as unrestricted aid (A.R.S. § 28-5808).

Current Distribution Method
For all three taxes, aid is distributed to municipalities based on population.

Noteworthy Policy Changes in the 2000s that Impact Unrestricted Aid
The state's income tax rates were decreased in tax years 2008 and 2007, which in-turn reduced unrestricted aid. Arizona's income tax rates have not changed since 2008.

Florida

Source of Aid and Total Amount
The State of Florida provides unrestricted aid to local governments via tax earmarking, virtually all of which comes from the sales tax. Sales tax revenue is shared with municipal governments in two ways: the "Local Government Half-Cent Sales Tax," and, "Municipal Revenue Sharing." Municipalities received a total of $1.087 billion in unrestricted aid from the state government in 2020.

Table 12: Florida Unrestricted State Aid by Source

Tax	FY2020 Unrestricted to Municipalities ($ Millions)
Half-Cent sales tax	$714.28
Municipal Revenue Sharing	$372.96
Total	**$1,087.24**

Source: Florida Department of Revenue 2020

Origin of Aid and Policy Goal/Intent
Local Government Half-Cent Sales Tax: The Local Government Half-Cent Sales Tax was created in 1982, specifically, for ad valorem and utility tax relief. It is called the "half-cent" tax because in 1982, the sales tax rate was increased from 4 percent to 5 percent, and, revenue from half of the one percentage point rate increase was specifically dedicated to local governments.

Municipal Revenue Sharing: This program was created in 1972. Originally, revenue for the program came from the cigarette tax, fuel tax, and alternative fuel tax; however, this was changed to sales tax revenue in 2001. Fuel tax revenue is still shared with local governments; however, that revenue is restricted to use for transportation related expenses only. The Municipal Revenue Sharing program was created with the policy goal of ensuring local governments had a minimum level of revenue at their disposal.

Current Aid and Earmark Amounts
Local Government Half-Cent Sales Tax: Revenue is distributed via the Local Government Half-Cent Sales Tax Clearing Trust Fund. Distributions to local governments from this program are:

- The "ordinary distribution," which is distributed to county and municipal governments, and, as of 2004, 8.714 percent of sales tax collections are allocated to the ordinary distribution.

- The Fiscally Constrained Counties and Emergency distributions, which combined are 0.095 percent of collections and only available to county governments.

Municipal Revenue Sharing: After distributions to the Local Government Half-Cent Sales Tax Clearing Trust Fund, 1.3653 percent of the remaining sales tax revenue is deposited into the Municipal Revenue Sharing Trust Fund. Municipalities are guaranteed a minimum amount of funding, which is equal to the amount they received in the 1971–1972 fiscal year.

Current Distribution Method

Local Government Half-Cent Sales Tax: Revenue is distributed based on population.

Municipal Revenue Sharing: The revenue is allocated to municipalities using an apportionment factor that takes into consideration, the municipality's population (a demand variable); point of sales tax collection (a location variable); and, the municipality's ability to raise revenue (a variable meant to capture need). The overall apportionment factor is calculated as follows (there are multiple calculations involved in determining each sub-factor):

$$\text{Apportionment Factor} = \frac{\text{Proportion of Adjusted Municipal Population} + \text{Proportion of Derived Municipal Sales Tax Collections} + \text{Proportion of Municipality's Relative Ability to Raise Revenue}}{3}$$

Source: Florida Legislative Office of Economic and Demographic Research 2019, 81.

Illinois

Source of Aid and Total Amount

The State of Illinois provides unrestricted aid to municipalities via tax earmarking, specifically, the income tax; sales tax; and, personal property replacement tax (PPRT). In 2019, the state shared the following amounts with municipal governments:

Table 13: Illinois Unrestricted State Aid by Source

Tax	FY2019 Estimated Amount to Municipalities ($ Billions)
Sales Tax	$5.85
Income Tax	$1.34
PPRT	$1.32
Total	**$8.51**

Source: Illinois Municipal League; Illinois Department of Revenue

Origin of Aid and Policy Goal/Intent

Income Tax: Illinois started sharing income tax revenues with local government in 1969 when the state established the income tax system. The Illinois Constitution prohibits local income taxes (Article IX, Section 3).

PPRT: The PPRT is a state tax; however, all revenue is constitutionally dedicated to local governments and school districts. The PPRT was created in 1979 to make up for the revenue

local governments lost as part of the revisions to the Illinois Constitution in 1970 that disallowed local governments from collecting a business personal property taxes (Article IX, Section 5 of the Illinois Constitution). The constitutional provision specifies that the statewide tax "shall replace all revenue lost by units of local government and school districts as a result of the abolition of ad valorem personal property taxes subsequent to January 2, 1971."

Current Aid and Earmark Amounts

Sales tax: Of the 6.25 percent rate, revenue from 1.25 percentage points is distributed to local governments. Proceeds from the 1.25 percent portion of the state sales tax (or 20 percent of the total state sales tax) are returned to local governments in the following manner:

- 80 percent of net proceeds to the Local Government Tax Fund; and
- 20 percent of net revenue to the County and Mass Transit Fund.

Income tax: 6.06 percent of personal income, and, 6.85 percent of corporate income tax revenue is dedicated to local governments.

PPRT: All revenue from the PPRT is allocated to local governments, with 51.65 percent dedicated to governments in Cook County, and, the remaining 48.35 percent distributed to governments in all other counties.

Current Distribution Method

Aid from the income and general sales tax is distributed to municipalities based on population, while aid from the PPRT is distributed based on local governments' share of the 1977 personal property tax collections.

Noteworthy Policy Changes in the 2000s that Impact Unrestricted Aid

Lawmakers changed the income tax rates in Illinois several times between 2007 and the present. Tax rates increased in 2011; decreased in 2015; and, then, increased again effective July 1, 2017. When lawmakers increased the income tax rates starting in 2011, the percentage shared with local governments was reduced so that all revenue generated from the increase in the tax rates went to the state government.

Effective January 1, 2015, halfway through the fiscal year, the individual income tax rate decreased from 5.0 percent to 3.75 percent, and, the corporate income tax rate decreased from 7.0 percent to 5.25 percent. The portion of revenue allocated to local governments was increased so aid did not decrease.

Public Act 100-0022 authorized a permanent increase in the individual income tax rate from 3.75 percent to 4.95 percent, and, the corporate income tax rate from 5.25 percent to 7 percent, effective July 1, 2017. The state also reduced the percentage of income tax shared with local governments to 5.45 percent of individual income tax collections, and, 6.16 percent of corporate income tax collections. Today, 6.06 percent of personal income, and, 6.85 percent of corporate income tax revenue is dedicated to local governments.

Minnesota

Source of Aid and Total Amount
The State of Minnesota provides unrestricted aid to municipal governments via its Local Government Aid program. In 2017, $547.54 million was shared with municipal governments.

Origin of Aid and Policy Goal/Intent
The program was created as part of the Minnesota Fiscal Disparities Act of 1971. The aim of the program is to provide aid to municipalities whose spending needs exceed their property tax capacity, thereby minimizing disparities among communities.

Current Aid and Earmark Amounts
The maximum amount of total funding is specified in state law, and, starting with FY2021, funding is a maximum annual amount of $564,398,012 (Minn. Stat. §477A.03 Subd. 2a).

Current Distribution Method
Determining the exact amount of aid each municipality receives is a complex process that involves a number of steps. The current version for how aid is allocated was enacted in 2013 (and slightly modified in 2017), and the general structure is as follows (Dalton 2017):

- First, a municipality's total revenue need is calculated. Municipalities are grouped into three size categories based on population, and, there is a different need formula for each category.
    - The groups are: small—population less than 2,500; medium—population between 2,500 and 10,000; and large—population in excess of 10,000.
- Second, the unmet need is determined. This is the difference between need (calculated in the first step), and, the "equalized net tax capacity multiplied by the average tax rate for all cities in the previous year" (Dalton 2017).
- Third, the unmet need for the current year is compared to the municipality's previous year's aid payment. If unmet need is less than the previous year's payment, then the aid payment for the current year simply equals unmet need. However, if the current year unmet need is greater than the previous year's aid payment, then the current year aid payment equals last year's aid multiplied by the difference between the current year's unmet need, and, last year's aid.
- Last, there are restrictions on how much a municipality's aid can decrease from year-to-year; currently the restrictions are the lesser of $10 multiplied by the city population, and, 5 percent of the previous year's tax levy.

Noteworthy Policy Changes in the 2000s that Impact Unrestricted Aid
Funding for the program decreased in nominal dollars from $608 million in 2001 to $425 million in 2012. Cuts made throughout the 2008–2012 period were specifically to balance the state's budget. The formulas for allocating aid were changed in 2013, and, funding was increased.

Montana

Source of Aid and Total Amount
Montana provides funds to local governments via its Entitlement Share Program, which provides aid to consolidated governments; counties; cities/towns; and, tax increment financing (TIF) districts. As highlighted in Table 14, total FY2021 funding for the program is $163.22 million, with nearly 50 percent allocated to cities and towns.

Table 14: FY2021 Entitlement Share Program Payments

Government	Amount ($ Millions)
County	$58.25
City/Town	$76.79
Consolidated Government	$6.96
TIF District	$21.22
Total	**$163.22**

Source: Montana Department of Revenue n.d.

Origin of Aid and Policy Goal/Intent
The program was created in 2001 (HB 124), and, its origins are tied to streamlining state and local taxes. Prior to HB 124, the distribution of state and local taxes was complicated as local governments collected taxes; sent them to the state; and, then, the state sent back portions of that revenue to the local governments. To reduce the complexity of this structure, lawmakers passed HB 124, and, the Entitlement Share Program was designed to make up for revenue losses local governments experienced due to streamlining the overall system, and, due to the property tax rate reduction enacted by SB 184 (1999).

Current Aid and Distribution Method
Funding for the Entitlement Share Program is the sum of all local governments' base amount of aid, and, that total is then increased by a growth rate. Local governments' base amount of aid is equal to the revenue they received in 2001 under the old system, as well as, the revenue lost due to the property tax reductions.

The growth formula is based on three years of revenue from: vehicle, boat, and aircraft fees; gaming revenue; beer, wine, and liquor revenue; individual income tax; and, corporate income tax. Starting with FY2020, the maximum growth rates are 1.03 for counties; 1.0325 for consolidated local governments; 1.035 for cities and towns; and, there is no growth factor for tax increment finance districts (Montana Department of Revenue 2018, 372).

Noteworthy Policy Changes in the 2000s that Impact Unrestricted Aid
Aid amounts were frozen in FY2013 and FY2014, and, a new base was set to the 2012 payments. The growth rate was capped at 3 percent effective FY2014, and then the growth rates were cut in fiscal years 2018 and 2019.

Nevada

Source of Aid and Total Amount

The State of Nevada provides unrestricted aid to local governments through its Consolidated Tax Program, which is the umbrella program for the six state taxes in which portions are allocated to local governments. The relevant taxes are: Governmental Services Tax (GST); Real Property Transfer Tax (RPTT); Liquor Tax, Cigarette Tax, City/County Relief Tax (BCCRT); and, Supplemental City/County Relief Tax (SCCRT). In 2019, the state shared the following amounts with local governments:

Table 15: Nevada Unrestricted State Aid by Source

Tax	FY2019 Estimated Amount to Local Governments ($ Millions)
BCCRT	$297.18
SCCRT	$1,039.85
RPTT	$43.18
Cigarette Tax	$9.6
Liquor Tax	$3.91
GST	$189.67
Total	**$1,583.39**

Source: Nevada Department of Taxation 2020

Origin of Aid and Policy Goal/Intent

The Consolidated Tax Program originated with the Local Government Tax Act of 1991 and 1993. (Also known as Fairshare or AB104).

Current Aid and Earmark Amounts

Revenues from the six aforementioned taxes are pooled at the county level for distribution to the local governments under a single formula. Table 16 shows the portions of the total collections that went to the state's General Fund versus local governments via the Consolidated Tax Program:

Table 16: Distribution of FY2018 Tax Revenue

Tax	Percent Transferred to State General Fund	Percent Transferred to Local Governments
BCCRT	2%	98%
SCCRT	2%	98%
RPTT	54%	23%
Cigarette Tax	95%	5%
Liquor Tax	97%	3%
GST	4%	35%

Source: Authors' analysis of Nevada Legislature, Fiscal Analysis Division 2019

Current Distribution Method

With all of the Consolidated Tax Program revenue, funds are first distributed to counties and Carson City, and then to the applicable cities, towns, special districts, and enterprise districts within each county. The distribution to the counties is referred to as the "first tier," and, the distribution to the local governments within each county is referred to as the "second tier." The formula for distributing the revenue to counties varies by tax as follows:

- Point of origin: The Governmental Services Tax; Real Property Transfer Tax; and Basic City-County Relief Tax.
- Population: Liquor Tax; Cigarette Tax.
- Supplemental City-County Relief Tax—some are "guarantee" counties, which get a guaranteed base amount of money, and, for the others it is a point of origin distribution. The "guarantee" counties receive their distribution first, and, any remaining revenue is allocated to the non-guarantee counties using point of origin.

North Carolina

Source of Aid and Total Amount

North Carolina shares revenues with localities from six different taxes. State aid is provided via tax earmarking of sales taxes on specific items or services. In 2019, the state shared the following amounts with local governments:

Table 17: North Carolina Unrestricted State Aid by Source

Tax	FY2019 Estimated Amount to Local Governments ($ Millions)
Beer and Wine Excise Tax	$39.5
Sales Tax on Piped Natural Gas	$19.15
Sales Tax on Electricity	$330.5
Sales Tax on Telecommunications	$43.1
Sales Tax on Video Programming	$73.9
Solid Waste Disposal Tax	$7.9
Total	**$514.05**

Source: North Carolina Department of Revenue n.d.

Current Aid and Earmark Amounts

- Beer and Wine:
  - 20.47 percent of beer excise tax collections goes to counties and cities;
  - 49.44 percent of unfortified wine excise tax collections goes to counties and cities; and
  - 18 percent of fortified wine excise tax collections are earmarked to counties and cities (105-113.82).
- Sales Tax on Piped Natural Gas: 20 percent of collections are earmarked to cities (105-164.44L).
- Sales Tax on Electricity: 44 percent of collections are earmarked to cities (105-164.44K).

- Sales Tax on Telecommunications: 18.70 percent of collections (minus $2.6 millions) is allocated to cities (§ 105-164.44F), and, 37.1 percent net collections from tax of direct at home satellite services (§ 105-164.44I).
- Sales Tax on Video Programming: 23.6 percent of net proceeds are earmarked to counties and cities.

Current Distribution Method
With most of the taxes, revenue is allocated to municipalities based on population; point of sale/use; and/or the proportion of property taxes levied by one municipality in comparison to all other municipalities within the same county:

- Beer and wine excise tax revenue is distributed based on point of sale and population.
- Sales Tax on Piped Natural Gas: Distributions are based on "excise tax share," a "gas city" designation, and "ad valorem share."
- Sales Tax on Electricity: There are two components of this: "Franchise Tax Share," and, "Ad Valorem Share." Ad Valorem Share is distribution of revenue that remains after the Franchise Tax Share.
- Sales Tax on Telecommunications: Revenue is distributed on a per capita basis.
- Sales Tax on Video Programming: Revenue is distributed on a per capita basis.

Noteworthy Policy Changes in the 2000s that Impact Unrestricted Aid
North Carolina used to have an Electric Franchise/Natural Gas Excise Tax that was shared with municipalities, but, effective July 1, 2014, it was eliminated, and, electricity sales are now subject to the general sales tax (Session Laws 2013-316 4.4.1(a)).

Idaho

Source of Aid and Total Amount
The State of Idaho shares general sales tax revenue with municipalities. In 2019, aid from the sales tax to municipalities totaled $235.3 million.

Origin of Aid and Policy Goal/Intent
Idaho began collecting general sales tax revenue in 1966, and, revenue was not shared with cities and counties until 1984. That year, the state sales tax rate was increased by one percentage point (from 3 to 4 percent), and, the City-County Revenue Sharing program was also created. The rate increase and creation of the revenue sharing program were done to make up for decreased property tax collections that local governments experienced due to a 1981 legislatively imposed property cap (Association of Idaho Cities 2018).

Current Aid and Earmark Amounts
11.5 percent of collections goes to county and cities, and, of that amount, 28.2 percent goes to cities as unrestricted revenue (or approximately 3 percent of total sales tax collections).

Current Distribution Method
Aid is distributed to municipalities in two ways:

- 50 percent of total aid is distributed to cities based on population; and
- the 50 percent is distributed based on cities' assessed market value.

Noteworthy Policy Changes in the 2000s that Impact Unrestricted Aid
The sales tax rate was increased in twice in Idaho: from 4 to 5 percent in 2003, and then from 5 to 6 percent in 2006. When the rate was increased to 6 percent, the distribution of collections was also changed. From 2000 through 2005, 13.75 percent of collections were earmarked to cities and counties, and, it was lowered to 11.5 percent when the rate was increased. The rate was increased specifically for education, so the portion allocated to city and county governments was reduced to ensure all revenue generated from the rate increase went to school funding.

Tennessee

Source of Aid and Total Amount
The state shares revenue from seven different taxes with municipalities as unrestricted aid. These are: Hall Income Tax; Sales and Use Tax; Gross Receipts Tax TVA; Beer Tax; Excise Tax on Banks and Financial Institutions; and, Mixed Drink Tax. For FY 2021, the state is set to share the following amounts with city and county governments:

Table 18: Tennessee Unrestricted State Aid by Source

Tax	FY2021 Estimated Amount to Cities and Counties ($ Millions)
Beer Tax	$3.6
Excise Tax	$38.0
Gross Receipts Tax TVA	$169.7
Hall Income Tax	$27.0
Mix Drink Tax	$85.7
Privilege Tax	$6.4
Sales and Use Tax	$544.8

Source: State of Tennessee 2020–2021, A-63

Origin of Aid and Policy Goal/Intent
- Hall Income Tax: revenue has been shared since 1931; the tax was first created in 1929.
- Sales and Use Tax: revenue has been shared since the tax was first created in 1947.
- Beer Tax: revenue has been shared since the tax was first created in 1933.
- Excise Tax on Banks and Financial Institutions: revenue has been shared since the tax was first created in 1977. Prior to 1977, there was a non-uniform tax.
- Mixed Drink Tax: revenue has been shared since the tax was first created in 1967.

Current Aid and Earmark Amounts
For the seven taxes in which revenue is shared with local governments, the following amounts of collections are earmarked for cities and counties:

- Hall Income Tax: 3/8 total collections;
- Sales and Use Tax: 4.6030 percent of collections;

- Privilege Tax: 100 percent of the privilege tax on NBA and NHL players;
- Gross Receipts Tax TVA: 28.3 percent of collections;
- Beer Tax: 10.05 percent of collections is earmarked to counties, and, 10.05 percent is earmarked to cities; and
- Mixed Drink Tax: 50 percent of the 15 percent gross receipts tax is earmarked to cities and counties.

Current Distribution Method

- Hall Income Tax: point of collection/sale.
- Sales and Use Tax: Population
- Privilege Tax: Situs
- Gross Receipts Tax TVA: Population for Cities
- Beer Tax: Situs for wholesale; Population and equal shares for excise
- Excise Tax on Banks and Financial Institutions: Situs
- Mixed Drink Tax: Situs

Wisconsin

Source of Aid and Total Amount

Wisconsin provides unrestricted aid to local governments (counties and municipalities) through the following programs that are collectively referred to as "shared revenue": County and Municipal Aid; Public Utility Aid; and, the Expenditure Restraint Program (ERP). The largest program is County and Municipal Aid, and, it accounted for 85 percent of total funding in 2018. The following table lists various aids to local governments in 2018:

Table 19: Wisconsin Unrestricted State Aid by Source

Program	FY2019 Amount to Local Governments ($ Millions)
County & Municipal Aid	$753.08
Utility Aid	$75.66
ERP	$59.31
Total	**$888.05**

Source: Wisconsin Department of Revenue n.d.

Origin of Aid and Policy Goal/Intent

State revenue sharing began in 1911, when, the state income tax was enacted and shared with counties and municipalities, with aid allocated based on the point of collection. In 1972, the program was replaced with a new system that had three general goals: (1) providing property tax relief; (2) equalizing revenue raising ability; and (3) compensating for services provided to certain utility properties exempt from property taxation (Schumann and Olin 2017). The "shared revenue" program was initiated in 2001, and, retained two of the three goals mentioned above. The current system has been in effect since 2004, and, under it, the goals of property tax relief, and, compensation for utility property, have been retained. However, the policy goal of equalizing revenue raising ability has been suspended.

The utility aid program is functionally a PILOT because it is specifically meant to compensate "local governments for costs they incur in providing services to public utilities" (Schumann and Olin 2017, 4). As such, the amount of utility aid municipalities receive is a function of the presence of utilities in their jurisdiction. The Expenditure Restraint Program is limited to qualifying municipalities, and, is explicitly meant to curb spending growth. Municipalities qualify for the program if, its "municipal-purpose tax rate [is] greater than the state average municipal tax rate; its equalized value per capita [is] less than 120 [percent] of the state average; and, its operating budget had grown by no more than inflation plus 3 [percent]" (Wisconsin Department of Revenue 2019). Total funding has been capped at $58.15 million since 2003.

Current Aid and Distribution Method

Under the State of Wisconsin's County and Municipal Aid Program, local governments receive the same nominal amount of money from the state each year. For 2005 through 2009, the amounts municipalities received was equal to the amount the received in 2004. County and municipal aid payments were cut in 2010 and 2012. Since 2013, the amount of money municipalities receive is equal to their 2012 payment. The City of Madison, for example, has received $4.76 million each year from the state since 2012, even as its population has grown, which means that per capita aid has declined.

Endnotes

[1] The Census of Governments defines "General Revenue" as all "revenue comprises all revenue except that classified as liquor store, utility, or insurance trust revenue" (2006, 4-3). There are four subcategories of General Revenue: taxes; intergovernmental revenue; current charges; and miscellaneous.

[2] In the Census of Governments the category for unrestricted intergovernmental revenue from state governments to local governments is Code C30 General Local Government Support. This category includes all unrestricted revenue from state governments.

[3] The National Conference of State Legislatures did issue a report on state tax earmarking in 2008 that contains a detailed list of relevant taxes and their distributions for each state (Pérez 2008). However, the focus is on the distribution of tax revenue, and, not whether restrictions are imposed on the use of funds. In addition, the report only examines tax earmarking, and, as such, it does not include other forms of general aid programs.

[4] There were no states that provide aid via a lump-sum program in which total state aid is at least 5 percent of municipalities' total revenue *and* real, per-capital general state aid increased between 2007 and 2017.

[5] The relevant 12 states are: California; Delaware; Georgia; Hawaii; Iowa; Kentucky; Missouri; Pennsylvania; Rhode Island; Texas; Utah; and Vermont.

[6] We use the term "sales tax" throughout this report to refer to "general sales and use taxes" and "gross excise taxes," which in state law are often multiple taxes rather than a singular tax. The

relevant category for "sales tax" in the Census of Government is "General Sales and Gross Receipts Taxes."

[7] Florida's sales tax earmarking data is reported as the revenue distributed to county and municipal governments. We compared state aid to county and municipal governments from the Census of Governments with the sales tax data to determine that most unrestricted aid is derived from that source. In 2017, unrestricted state aid to county and municipal governments was $2.9 billion (Census of Governments 2017), and, the amount of sales tax revenue shared with local governments was $2.8 billion (Florida Tax Handbook 2020).

[8] This figure was calculated using the "Total Collections," and, "Local Governments" distribution figures that are reported in the annual Florida Tax Handbook. In that report, Local Governments distribution includes the County Share; County Revenue Sharing; Public Employees Relations Commission; Local Government Half-Cent Sales Tax; and Municipal Revenue Sharing. The figure differs from the one in Table 8 because the figure in Table 8 was calculated using only the distributions for the Local Government Half-Cent Sales Tax and Municipal Revenue Sharing.

[9] Prior to July 1, 2020, Idaho state law specified that 11.5 percent of total collections was earmarked to cities and municipalities for various purposes, and, of that amount, 28.2 percent was specifically dedicated to municipalities (ID Code § 63-3638 (2011 through Reg Sess).

[10] Table 7 only captures revenue sharing as it relates to municipal governments, and, it is important to note, that in addition to the information in Table 7, state income tax revenue may be allocated to other types of governments and/or specific budget areas.

[11] Ohio state law does not specify the percentage of collections earmarked to local governments, and, the 4 percent shown in Table 7 was calculated using revenue data for FY2019.

[12] Tennessee's income tax is limited to taxation of interest and dividends from stocks, bonds, and notes (referred to as the "Hall income tax"). Legislation was passed in 2016 to phase out the Hall income tax, and, by 2021, there will be effectively no income tax in Tennessee.

[13] Table 8 only captures revenue sharing as it relates to municipal governments, and, it is important to note, that in addition to the information in Table 8, state sales tax revenue may be allocated to other local governments and/or specific budget areas. For example, in Michigan, the majority of sales tax revenue is earmarked for schools, and, smaller portions are also distributed to transportation and airports.

[14] Often states earmark portions of multiple taxes for municipalities, and, these can range widely in the amount of revenue that is distributed. Excluding taxes earmarked for transportation spending, Tennessee, for example, shares revenue from seven taxes with municipal governments, and, the amount ranged from $1.7 million (from the beer tax) to $420 million (from the general sales tax). We focused our efforts on identifying the major sources of unrestricted aid rather than generating an exhaustive list of every tax and fee in which a portion of revenue is allocated to municipal governments.

[15] Payment-in-lieu of tax (PILOT) programs are excluded in this report, as they tend to be targeted to specific jurisdictions where a state government owns a significant amount of property, and, as such, PILOT funds tend to be available only to a limited number of qualifying municipalities.

[16] This is the distribution effective as of 2019 under the Financial Institution Excise Tax Reform Act of 2019.