

Texas Agricultural Extension Service

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Financing Local Government In Texas Sources of Municipal Government Revenue 1977—1982

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Introduction

Financing local government in Texas, as in other states, is becoming an increasingly complex issue. One indicator of this is the composition of total government revenue. While at one time, total revenue may have been largely dependent on the property tax, significant funds are now obtained from a variety of sources, making effective financial management of local government more difficult.

For example, proposed decreases in federal revenue sharing dollars will have a negative impact on total revenue in direct proportion to their contribution. Another example is the effects of the economic slowdown in the oil—gas and agricultural industries. It is important that local government officials be aware of how these and other revenue-related factors will affect their overall financial situation and how the contribution of specific revenue sources affects total revenue.

TABLE 1. Sources of Municipal Government General Revenue, United States and Texas, 1977-1982.^{1 2}

SOURCE:	UNITED STATES			TEXAS		
	1977	1982	Change 77-82	1977	1982	Change 77-82
Intergovernmental	40%	35%	-5%	21%	16%	-4%
Federal	15%	12%	-3%	18%	14%	-3%
Gen'l Rev. Sharing	4%	3%	-1%	6%	3%	-2%
Other	11%	9%	-1%	12%	11%	-1%
State	23%	21%	-2%	2%	2%	-1%
Public Welfare	6%	4%	-3%	0%	0%	0%
Health & Hospitals	1%	1%	-0%	0%	0%	-0%
Highways	2%	2%	-0%	0%	0%	0%
Gen'l Gov't Support	6%	6%	0%	0%	0%	0%
Other	9%	9%	0%	2%	1%	-1%
Other Local Gov'ts	2%	2%	0%	1%	1%	-0%
Internal	60%	65%	5%	79%	84%	4%
Taxes	43%	41%	-2%	51%	48%	-3%
Property	26%	21%	-4%	32%	25%	-6%
Sales & Gross Receipts	10%	11%	2%	19%	22%	3%
General	6%	7%	1%	14%	15%	1%
Utilities	2%	3%	0%	4%	6%	1%
Misc.	1%	1%	0%	1%	1%	1%
Other	8%	8%	0%	1%	1%	0%
Charges & Miscellaneous	17%	25%	7%	28%	35%	7%
Charges	11%	14%	2%	19%	21%	2%
Hospitals	2%	3%	1%	3%	3%	-0%
Sewerage	3%	4%	1%	6%	7%	1%
Other Sanitation	1%	1%	0%	3%	4%	0%
Other	5%	6%	1%	6%	7%	1%
Miscellaneous	6%	11%	5%	9%	15%	5%

¹ Data from 1977, 1982 Census of Governments, Bureau of Census, U.S. Department of Commerce.

² Numbers may not sum exactly due to rounding error.

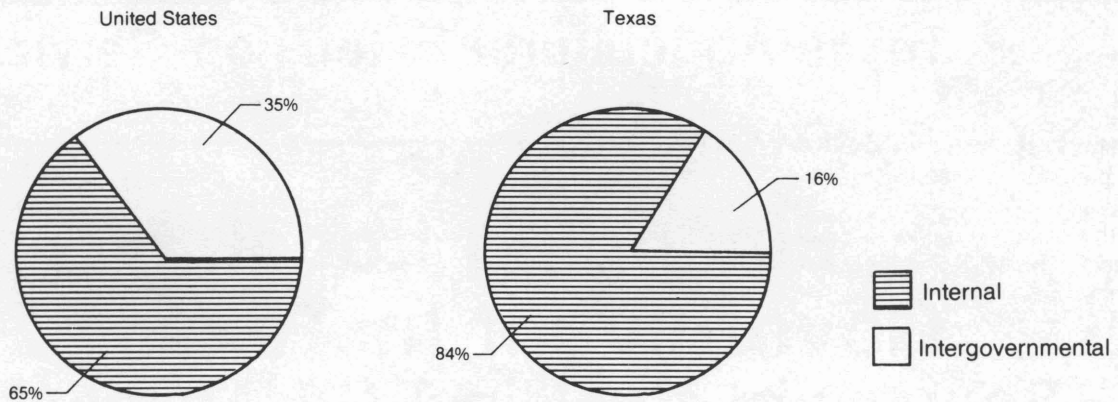


Figure 1. General categories of Municipal Revenue, 1982.

This would facilitate accurate evaluation of the impact of change in specific sources on total revenue.

This report provides a comparison between Texas municipalities and municipalities throughout the country. Trends in sources of revenue from 1977 to 1982 are evaluated. The report (1) illustrates a method by which local governments can determine the contribution of specific sources of revenue to total revenue and (2) provides comparative data for use in assessing the financial situation of individual municipalities.

Sources of Revenue: Texas and the Nation

Table 1 presents information on the composition (expressed as percentages) of total municipal government general revenue for Texas and municipalities nationwide for two time periods, 1977 and 1982. Figure 1 is a graphic illustration which shows the contribution to total revenue made by two general categories of revenue, intergovernmental and internal. Intergovernmental revenues are those received from other units of government; federal, state, county and other municipalities, while internal revenue is that generated by the municipality from local sources; taxes, charges, etc. As can be seen, Texas municipalities rely on internal revenue more extensively and are less dependent on intergovernmental revenue than municipalities throughout the country.

Figure 2 compares Texas and other states on specific

sources of intergovernmental revenue. While municipalities in Texas are less dependent on intergovernmental revenues, they generally rely on federal funds to the same extent as others. In 1982 Texas municipalities derived 14 percent of total revenues from the federal government compared to 12 percent for municipalities nationwide. The major difference between Texas and other states, in terms of intergovernmental revenue, is the extent to which state government supports municipal government. In Texas, 2 percent of total municipal revenue comes from this source as opposed to 21 percent for the country as a whole. Revenue received from other local governments is minimal in both Texas and the other states.

Figure 3 presents categories of internal revenue. As might be expected from the information presented above, Texas municipalities rely more extensively on these sources than other municipalities. The exception is the "other" tax category which includes income, motor vehicle and miscellaneous taxes. Municipalities throughout the country derive 8 percent of total revenue from this source compared to a 1 percent contribution for Texas municipalities. Note that although Texas municipalities tend to rely more on their own resources than other municipalities, dependence on the property tax is only slightly greater (25 percent vs. 21 percent). The internal revenue differential between Texas and other states is most apparent in the categories of sales

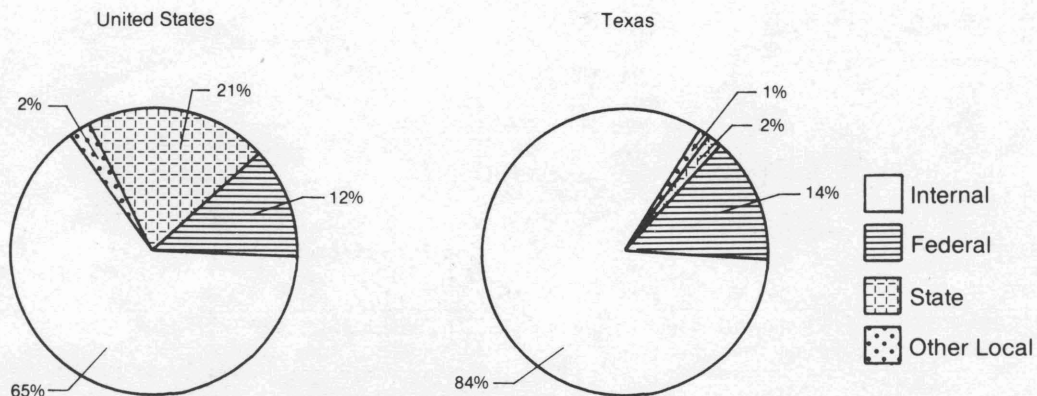


Figure 2. Categories of Municipal Intergovernmental Revenue, 1982.

and gross receipts taxes and charges, which are fees paid for government services.

Table 1 also shows trends from 1977 to 1982 in the composition of municipal government revenue. Texas closely parallels other states in terms of changes in the contribution of specific sources to total general revenue during this period. Basic trends for both indicate movement away from dependence on all types of intergovernmental revenue, and the property tax in the internal revenue category. Conversely, reliance on all other types of internal revenue has increased. In this, Texas seems to be reflecting nationwide trends. Specifically, these are transfer of functions and funding from higher to lower levels of government and taxpayer resistance to property tax increases. However, the largest increase from 1977 to 1982 is in the "miscellaneous" category which includes interest earnings, sale of property and special assessments. This possibly reflects relatively high interest rates occurring during this time period.

Summary and Implications

From the information presented above, it is apparent that financing municipal government in Texas is indeed a complex issue. While the property tax is still the largest, single contributor to total revenue, significant revenues are derived from several other sources. These include the general sales tax, charges, the federal government, and miscellaneous sources which include interest earnings. Variation in revenues received from these sources will have an impact on total funds available to finance local government in direct proportion to their contribution. For example, loss of all federal dollars would result in a 14 percent decrease in total revenue for Texas municipalities based on 1982 figures.

A comparison of Texas municipalities with other municipalities on the basis of revenue sources (1977-1982) indicates that Texas municipalities tend to rely more on internal revenues closely related or closely tied to local economic conditions. However, some sources of internal revenue fluctuate more than others. The general sales tax, for example, is dependent on the degree of economic activity in products and

services covered under this tax and can vary substantially from year to year. On the other hand, property tax revenues do not vary greatly in the short term. To the extent municipalities are dependent on such revenue sources, effective financial management requires careful monitoring of short and long term local economic trends and their likely impact on total revenue. Furthermore, municipal government officials will likely be supportive of economic development efforts, which insure stability and growth in the local economy.

However, it should be noted that the conclusions drawn above are generalities based on aggregate information for the state. While providing a basis for comparison, the composition of total revenue for specific municipalities will likely differ from that presented here. In addition, individual municipalities may conduct an in-depth assessment of revenue sources for a more precise financial evaluation. For example, the property tax, presented here as a single category, has several different components; agricultural, business, residential, etc. Changes in these components will affect total revenue to the extent they contribute to it. The same applies to the other sources of revenue dealt with here, with more detailed analysis being possible at the local level. This report has outlined a procedure for examining sources and trends in municipal government revenues and provided data for comparative purposes. For assistance in conducting an evaluation of current municipal government revenues similar to that presented here contact your local county Extension agent.

Further analysis of this information revealed a marked similarity between different population size categories of Texas municipalities in terms of revenue sources. The most noticeable difference was a tendency for smaller (less than 25,000 population) municipalities to rely somewhat more on tax revenue than larger municipalities. From the information presented above it appears that differentials in the composition of total revenue between Texas municipalities are more likely attributable to differences in the structuring of their local economies.

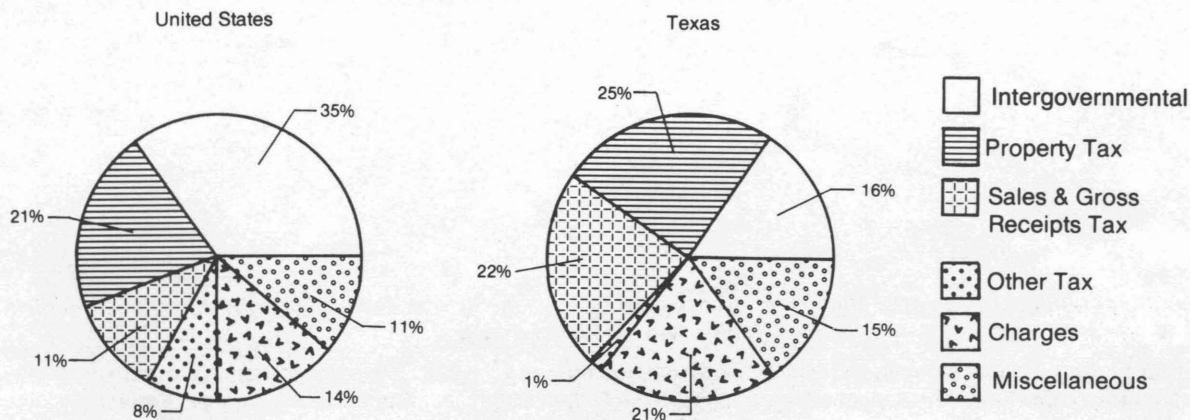
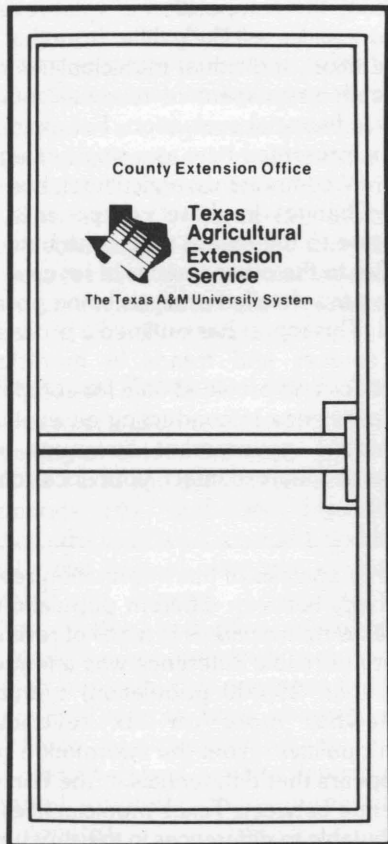
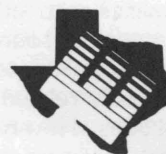


Figure 3. Categories of Municipal Internal Revenue, 1982.



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