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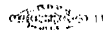
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SHIFTING REVENUE PATTERNS IN ILLINOIS MUNICIPALITIES

By NORMAN WALZER and ROBERT A. BLEWETT*

During the past several years, state legislatures and voters in local referenda have moved to impose restrictions on the property taxes levied by local governments. California's Proposition 13 and Proposition 1/2 in Massachusetts are notorious examples of such restrictions. In Illinois, local governments have not been completely exempt from these restrictions as voters in several areas have reduced property tax limits. The state has long had controls on the maximum property tax rates levied by local governments without home rule powers.

The interest in restricting the use of property taxes is ironic in light of the fact that the methods of financing municipal services have been changing in such a way that property taxes are a less important component of total revenues collected by cities. This article traces out the changes in three major municipal revenue sources: property taxes, intergovernmental aid, and charges/miscellaneous revenues. These trends relate solely to municipal revenues and do not include counties, townships, school districts, or special districts.

Trends in Property Taxes

An interesting finding concerning property taxes is obtained when data are examined. Contrary to popular opinion, real (i.e. adjusted for inflation) property taxes per capita in Illinois cities have not increased. In fact, they have declined nationwide and per capita municipal property taxes in Illinois are lower than the average for all U.S. cities.

The trends in municipal property tax collections (both adjusted and unadjusted for inflation) are shown in Table 1. In Illinois, property taxes did increase from \$22.25 to \$77.16 per capita. However when one considers the impact of inflation upon public service costs, the \$22.25 collected in 1957 should be compared with the inflation-adjusted amount of \$21.95 in 1980. Rather than

an increase of 247 percent, there was, in real terms, a decrease of 1.3 percent.¹

A similar experience is found when comparing Illinois cities with those nationwide. The U.S. cities collected property taxes of \$38.73 per capita in 1957. By 1980, they were collecting \$120.14 per capita. However if an allowance is made for inflation in public service costs, the 1980 U.S. average actually declined to \$34.18 per resident.

These figures, while interesting for comparison purposes, must be examined with a realization that major differences exist between the Illinois cities and the national sample in responsibility for providing services. Illinois cities, for example, do not have responsibility for education and welfare. Cities in some other states do. Likewise, residents in Illinois cities pay sales taxes while cities in some other states may have relatively greater property tax burdens and pay fewer other taxes. Also the organization of governments is different and in Illinois some municipal services are provided by special districts.

As important as the trends in the level of property tax collections is the relative importance of property taxes in the financing of municipal services. In the past 23 years there has been a marked decline in the reliance on property taxes as a source of municipal revenue. In

*Chairman and assistant professor, respectively, Department of Economics, Western Illinois University. Gratitude is expressed to Moshen Shalchi and Steve Dalton for assistance in tabulating the data. Much of the material in this article was presented as part of the Illinois Municipal League conference on financing municipalities. Because of requests for material, the major points have been outlined in this article.

1. Since population numbers are not available for inter-decennial census years, the assumption was made that the municipal population growth was linear between the census years. The revenues were deflated by the Implicit Price Deflator for State and Local Government Purchases, virtually the only price deflator for the public sector available for this time period.

Table 1
TRENDS IN MUNICIPAL PROPERTY TAX COLLECTIONS

Year	Illinois Cities*			U.S. Cities		
	Current Dollars	Constant** Dollars	Percent of Revenue	Current Dollars	Constant** Dollars	Percent of Revenue
1957	\$22.25	\$22.25	39.2	\$38.73	\$38.73	46.3
1967	35.18	25.57	39.0	57.57	41.84	38.1
1977	69.48	25.03	25.9	113.34	40.83	25.8
1980	77.16*	21.95	21.2	120.14	34.18	22.2

*Does not include personal property taxes replaced with corporate income taxes.

**Constant dollars derived using Implicit Price Deflator for State and Local Government Purchases.

Source: U.S. Department of Commerce, Bureau of the Census, *Census of Governments: Finances of Municipalities and Township Governments, 1957, 1967, 1977*. U.S. Department of Commerce, Bureau of the Census, *Governmental Finances in 1979-80*.

Table 2
TRENDS IN INTERGOVERNMENTAL AID

Year	Illinois Cities				U.S. Cities			
	Federal		State		Federal		State	
	Per Capita	Percent of Revenue	Per Capita	Percent of Revenue	Per Capita	Percent of Revenue	Per Capita	Percent of Revenue
1957	\$.42	1.4	\$ 7.94	14.0	\$.95	2.9	\$ 13.40	16.0
1967	5.73	6.5	9.25	10.3	6.25	5.6	31.34	20.7
1977	39.93	14.9	35.94	13.4	64.60	14.6	102.20	23.2
1980	70.94	19.5	47.68	13.1	77.48	14.3	113.59	21.0

Source: U.S. Department of Commerce, Bureau of the Census, *Census of Governments: Finances of Municipalities and Township Governments, 1957, 1967, 1977*. U.S. Department of Commerce, Bureau of the Census, *Governmental Finances in 1979-80*.

1957 property taxes represented 39.2 percent of general municipal revenues in Illinois and this proportion has steadily declined to 21.2 percent in 1980. For U.S. cities, there was a decline in reliance on the property tax from 46.3 percent of total revenues 1957 to 22.2 percent in 1980. In the post-1977 period some of the decrease may have been triggered by a greater sensitivity to taxpayer resistance. However, there is clear evidence that property taxes were being replaced as the dominant revenue source during the late 1960s and early 1970s.

Trends in Intergovernmental Revenues

If property taxes have decreased both in real terms and as a percentage of revenues, one might logically inquire as to where replacement revenues have been obtained. One important source of revenues for municipalities is intergovernmental aid from federal and state governments. There has been a dramatic increase in such revenues since 1957. Total intergovernmental revenues to Illinois municipalities have increased from \$8.36 per capita in 1957 to \$118.62 per capita in 1980. As a percentage of general revenues, intergovernmental aid to Illinois cities went from 15.4 percent in 1957 to 32.6 percent in 1980. Nationwide, total intergovernmental aid went from 18.9 percent of municipal revenues to 35.3 percent during the same period.

A clearer picture of the changes in intergovernmental aid is obtained if its state and federal components are examined separately. Table 2 shows that per capita state aid to cities in Illinois increased from \$7.94 to \$47.68 between 1957 and 1980. Much of this increase is due to the enactment of the state income tax in 1969 with a portion designated for cities and counties. Also important is the state motor fuel tax rebates. However, as a percentage of municipal revenues, state aid to Illinois cities actually declined between 1957 and 1980. In other states, state aid to cities increased from 16.0 percent of general revenues to 21.0 percent during the same period.

The federal government has been mainly responsible for the increase in intergovernmental aid to Illinois cities. Federal aid to Illinois municipalities was 42 cents per capita in 1957 while in 1980 the corresponding figure was \$70.94 per capita.² As a percentage of total revenues, federal aid was only 1.4 percent in 1957 but in 1980 it was 19.5 percent.

It is extremely unlikely that a similar increase in intergovernmental revenues from the federal government will take place in the near future. In fact, such revenues may decrease. As a proportion of the federal budget, intergovernmental aid was 11.5 percent in 1978. The Reagan administration proposes that intergovernmental aid decline to 8.4 percent of the federal budget in 1981 and to only 5.4 percent in 1984.³ These proposals could have a significant negative impact on Illinois cities since about one-fifth of Illinois municipal revenues are in the form of federal aid.

Trends in Charges and Miscellaneous Revenues

There was quite a lot of attention in the press, following Proposition 13 in California, that cities and other governments were instituting charges for services to replace property tax losses. However, in the past, charges for services have never been a major revenue source for municipalities. To better understand changes in the municipal revenues, other than local taxes and intergovernmental assistance, a profile of a revenue category "Charges and Miscellaneous Rev-

2. These figures include Chicago

3. Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1980-81 Edition* (Washington D.C.: U.S. Government Printing Office, 1981), p. 64.



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Table 3
TRENDS IN CHARGES & MISCELLANEOUS REVENUES

Year	Illinois Cities Per Capita			U.S. Cities Per Capita		
	Current Dollars	Constant ^o Dollars	Percent of Revenue	Current Dollars	Constant ^o Dollars	Percent of Revenue
1957	\$ 7.84	\$ 7.84	13.8	\$ 14.60	\$14.60	17.5
1967	17.45	12.68	19.4	28.94	21.09	19.2
1977	41.98	15.12	15.7	76.51	27.56	17.4
1980	68.29	19.43	18.8	117.80	33.51	21.7

^oDerived using the Implicit Price Deflator for State and Local Government Purchases.

Source: U.S. Department of Commerce, Bureau of the Census, **Census of Governments: Finances of Municipalities and Township Governments, 1957, 1967, 1977.** U.S. Department of Commerce, Bureau of the Census, **Governmental Finances in 1979-80.**

enues” is included in Table 3. The results are different from what one might have expected from reading the news media. In short, while the amounts collected from this revenue source have increased markedly during the time period under study, the relative importance of this revenue source has increased relatively little. This is true in both Illinois and nationwide. In 1957, an average of \$7.84 per capita was being collected by Illinois cities compared with \$14.60 per resident as a national average. By 1980, it was estimated that \$68.29 per resident was being collected in Illinois, compared with an average of \$117.80 for municipalities, nationwide.

As a percentage of general revenues, however, charges and miscellaneous revenues represented only 13.8 percent in 1957 increasing to 18.8 percent in 1980. While this increase might be considered substantial, it is important to note that in 1967, this revenue source represented 19.4 percent of the general revenues collected by municipalities in Illinois. The experience, nationwide, is even less pronounced. In 1957, charges and miscellaneous revenues represented 17.5 percent of general revenues compared with 21.7 percent in 1980.

Future increases in charges and fees, however, are likely. Given opposition to increases in property taxes and the expected decline in intergovernmental aid, fees and charges are a likely additional revenue source. Fees are also the most “popular” source for additional revenues. A September 1981 public opinion poll by the Advisory Commission on Intergovernmental Relations asked what would be the best way for local government

to raise additional revenues. Fifty-five percent of the U.S. public thought charges for specific services should be used.⁴


General Observations

From this examination of the trends in municipal revenues, several observations seem worth making. First is the noticeable decline in the relative importance of property taxes in the financing of municipal services in Illinois and nationwide. In 1957, property taxes represented nearly 40 percent of general revenues but by 1980, they represented only half that much. The decline in importance is even greater at the national level.

Second is the significant increase in relative importance of intergovernmental aid. In 1957, federal and state aid, combined, represented 15.4 percent whereas in 1980 it represented approximately 32.6 percent for cities in Illinois. However, most of this increase is comprised of federal aid. Thus, intergovernmental aid replaced property taxes in importance as a revenue source in the mid-1970s. In fact, according to the Census Bureau estimates, federal aid to Illinois cities was of about equal importance as property taxes in 1980. However, federal budget proposals indicate that there may be decreases in federal aid in the future.

Third is the relative lack of growth in charges for services and other general revenues since 1967. Be that as it may, this category was nearly as important as property taxes in 1980 and the public seems to prefer charges for specific services if additional revenues must be obtained. ■

4. Other responses included local sales taxes (21 percent), local income taxes (7 percent) and local property taxes (5 percent). Advisory Commission on Intergovernmental Relations, **Changing Public Attitudes on Governments and Taxes, 1981**, (Washington D.C.: U.S. Government Printing Office, 1981), p. 7.



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