

THE IMPACTS OF PREEMPTION ON EQUITY RESEARCH BRIEFS

Consequences of State Tax and Expenditure Limits on Local Services

BY ERIKA ROSEBROOK

Introduction

For almost a century, states and cities have battled with who has the authority to decide how local governments serve residents. Recent debates in Georgia and Texas over whether cities have the authority to issue local mask requirements¹ or defund police² are examples of clashes over state preemption, or state legal limits on local power.³ Tax and Expenditure Limitations (TELs) are some of the oldest preemptions that perhaps strike closest to the heart of local governance, by limiting how cities raise money to fund community services. Yet, even with decades of life under TELs and highly visible movements like the Taxpayer Revolts of the 1970s and 1990s, the effects of these restrictions on the size and revenue of city governments are not clear. Previous work finds that cities respond to TELs by shifting to other revenue sources, but it does not examine whether the limits affect the services cities provide to residents. Specifically, rising costs and strategic management can leave constrained cities appearing as fiscally healthy but suffering from loss of personnel to deliver services. Using data newly compiled by The Policy Surveillance Program, with the support of the National League of Cities and the Robert Wood Johnson Foundation, this analysis investigates how local service capacity is affected by state tax and expenditure limitations.

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Acknowledgements: Support for this report was provided by the Robert Wood Johnson Foundation. The views expressed here do not necessarily reflect the views of the Foundation.

Police officers are the front line of local government to many residents, and unlike other municipal services, law enforcement has experienced increased funding and political support over the past two decades.⁴ With this commitment to law enforcement, while also acknowledging recent national unrest, many communities are utilizing existing police budgets for alternative response mechanisms like community responder programs, de-escalation and crisis intervention training, health driven public safety efforts, and mental health services for police officers. Only 12 percent of mayors supporting shrinking police budgets outright, however, so when these cuts do happen, it often indicates that fiscal stress is severe and other services have already suffered.⁵

This analysis investigates whether TELs, by limiting the ability of cities to raise revenue, contribute to long-term decline in the ability of cities to provide services. Using police FTE per capita as a lagging measure of service capacity, this analysis finds no evidence of lower service capacity *across* states in the short-term when TELs are added or strengthened, which is consistent with previous research on the fiscal impacts of TELS. In examining service capacity *within* states before and after the addition of TELs, however, the analysis finds a small but negative impact.

These results suggest that TELs may not have immediately visible consequences but can erode services over time and that focusing analysis on budget and revenues can limit the visibility of the impact of state limits on cities. As local leaders confront budget crises and other challenges, lessons from this analysis can be used to more effectively understand and communicate the effects of preemption on services available to residents. Identifying a shared set of comparable services for cities in a state to show how state limits have changed local service capacity both educates residents and connects state limitations of local authority to long-term consequences.

Tax and Expenditure Limits: A Brief History

Tax and Expenditure Limits (TELs) are state-imposed limits on local government authority to generate revenue and set expenditure levels. The limits take different forms across 48 of 50 states,⁶ with each state having its own particular mix of policies that place different levels of restriction on local governments, although in some cases the limits are offset by more robust state aid and revenue options.⁷ The common components of TELs are reflected in new data collected by the Policy Surveillance Program that examines state-level preemption across 50 states in 12 policy domains, 6 of which are related to tax and expenditure limitations placed on local governments by states.⁸ The Program reviewed statutes⁹ in each state and recorded the presence or absence of the following regulations:¹⁰

Full Disclosure: laws that require public notices for changes in property taxation, intent to override tax limitations, or other special circumstances.¹¹

General Revenue Limits: laws that limit local general revenue or appropriations or limit revenue specifically derived from local property tax.

Expenditure Limits: laws that limit local appropriations.

Property Tax Rate Limits: laws that limit local property tax rates.

Property Tax Assessment Limits: laws that limit valuation of property.

Property Tax Levy Limits: laws that limit revenues exclusively derived from property taxes.¹²

Table 1 shows which provisions have been enacted in each state, with property tax rate limits being most common (38 states) and expenditure limits being least common (8 states).

TABLE 1: LOCAL TAX AND EXPENDITURE LIMIT PROVISIONS BY STATE

Tax and Expenditure Limitation Provision	States that Have Enacted as of August 2019
Full Disclosure Requirements	Alabama, Arizona, Delaware, Florida, Georgia, Illinois, Kentucky, Louisiana, Maryland, Missouri, Nebraska, Nevada, New Hampshire, New York, North Dakota, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia
General Revenue Limit	Arkansas, Colorado, Michigan, Minnesota,* Nebraska, Nevada, New York, Wisconsin*
Expenditure Limit	Arizona, California, Colorado, Maine, Nebraska, New Jersey, Washington
Property Tax Rate Limit	Alabama, Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Georgia,* Idaho, Indiana, Iowa, Kentucky, Louisiana, Massachusetts, Michigan, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma,* Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, Washington, West Virginia, Wyoming
Property Tax Assessment Limit	Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Iowa, Maryland, Michigan, Montana, Nevada, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Oregon, South Carolina, Texas, Utah, Virginia, Washington
Property Tax Levy Limit	Alabama, Alaska, Arizona, Arkansas, Colorado, Connecticut, Delaware, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Montana, Nebraska, New Jersey, New Mexico, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin

* Indicates the TEL provision applies only to school districts.

Source: LawAtlas – Policy Surveillance Program (2019)

State Adoption of TELs: Waves of Policy Change

While there are other measures of tax and expenditure limits,¹³ the view offered by the Policy Surveillance Project data offers detail and insight into how states enact limits: they occur episodically across states but not all components are adopted at once. The first wave of TELs began with West Virginia (1932) and Nevada (1936) adopting rate limits in the wake of the Great Depression; five states added limits on rates, assessments, and levies in the 1950s and 1960s. Then, the taxpayer revolt of the late 1970s and early 1980s provided the first large-scale enactment of multiple TEL components in a large number of states, most prominently via California's Proposition 13. Ten other states adopted rate limits during this era, with 8 adding assessment limits, levy limits, or both. A second taxpayer revolt in the 1990s, highlighted by Colorado's Taxpayer Bill of Rights (TABOR) added more state limits on local authority, and after a period of relative quiet, 25 states have added some component (full disclosure requirements or limits on revenues, expenditures, rates, assessments, or levies) in the 2010s.

Impact of TELs: What We Know

This episodic yet consistent attention to local fiscal authority shows that voters and state and local officials agree that limits on local taxes and expenditures are important – though it's unclear whose view of their effectiveness is correct. Voters and states believe they restrain overzealous local officials and protect residents from high tax burdens, and cities often view them as intrusions that limit local ability to decide how best to serve residents, but the evidence on TEL impact is mixed. TELs rarely result in large changes in the amount of government spending.¹⁴ TELs do, however, change the composition of local revenues. State aid may replace declining local revenues,¹⁵ or cities may shift from general revenues to charges and fees¹⁶ or rely more on sales tax.¹⁷ The effects are more acutely felt in urban areas.¹⁸ TELs also negatively impact the use of tax-supported debt.¹⁹ In short, TELs do limit options available to local governments, local officials find ways to manage around the limits, and the complicated context makes impacts difficult to observe and analyze systematically, especially across states.

TELs and Service Capacity

Most of what we know about the effect of TELs on local governments understandably focuses on how they affect the size and fiscal condition of local budgets. The structure of the Policy Surveillance Project data offers an opportunity to shift that focus to whether and how TELs affect local service capacity.

In the last two decades, the ability of cities across the country to deliver services has declined. For example, as shown in Table 2, since 2000, Midwestern cities have lost

a substantial percentage of their workforce, even when population is growing.²⁰ Yet, because cities are required to have balanced budgets, overall fiscal health and spending might appear stable while the number of people actually providing services declines. In other words, as costs rise and revenues decline, cities may be spending similar amounts overall but cutting personnel; deferring capital projects; supplementing with grants or fees; or implementing other strategic budgetary maneuvers to keep things afloat. The effects of state limits on local authority to raise and spend money may not be seen for several years, forgotten by the voters or legislators who enacted them but acutely felt by those responsible for making cities work.

TABLE 2: ASSESSING DETROIT’S AND FLINT’S GOVERNMENT CAPACITY ACROSS KEY FUNCTIONS OF CITY GOVERNMENT, 2000 TO 2016

Functional Categories	City	City Government FTEs Per 10,000 City Residents		
		2016	2000 ^a	% Change, 2000–2016
Health and welfare ^b	Detroit	0.28	7.43	-96.19
	Flint	—	—	—
General government	Detroit ^c	8.66	22.21	-61.00
	Flint	7.60	19.77	-61.56
Parks, recreation, and culture	Detroit	10.07	11.10	-9.28
	Flint	0.21	8.01	-97.38
Public works	Detroit	26.58	70.44	-62.27
	Flint	19.82	24.27	-18.34
Public safety	Detroit	56.15	68.16	-17.62
	Flint	19.51	36.28	-46.22
Community and economic development	Detroit	1.52	8.61	-82.40
	Flint ^d	1.44	0.92	56.70

Note: Functional categories are sorted by the percent change from 2000 to 2016 averaged across both cities.

FTE = full-time equivalent employee; CAFR = Comprehensive Annual Financial Reports.

^aThe First year of data for Flint is 2003.

^bFlint has no Health and Welfare functions or programs listed in its CAFR.

^cFinal year of Detroit’s General Government FTE data is 2015.

^dIn 2003, Flint had 11 FTEs classified as working in the area of community and economic development. In 2016, that figure rose to 14 (with a series max of 15 in 2011). In other words, though the relative increase seems large, it is based on very low raw FTE numbers.

Source: Reckhow, Sarah, Davia Downey, and Josh Sapotichne. 2019. “Governing Without Government: Nonprofit Governance in Detroit and Flint.” *Urban Affairs Review*, May, 107808741984753. <https://doi.org/10.1177/1078087419847531>.

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The difficulty in comparing service capacity across cities and states is that cities choose to provide different services at different levels in ways that meet community needs. There are no known datasets that include comparable staffing levels for all cities and services. The one service most community provides, however, is law enforcement, and while other areas of municipal personnel have suffered cuts, law enforcement has seen increased funding and political support.²¹ Even in cities experiencing fiscal crisis like Detroit and Flint, public safety is the last service to be cut, with law enforcement FTEs per 10,000 residents remaining comparatively high over other services, even after bankruptcy and emergency management.²² Certainly cities choose different levels of police service based on local conditions, but regardless of level, public safety is one of the more resilient areas of the budget, even in times of severe fiscal stress. When numbers of officers start to drop, it can be an indicator that other services have already suffered cuts.

Do TELs Lower Service Capacity?: Comparison Across States

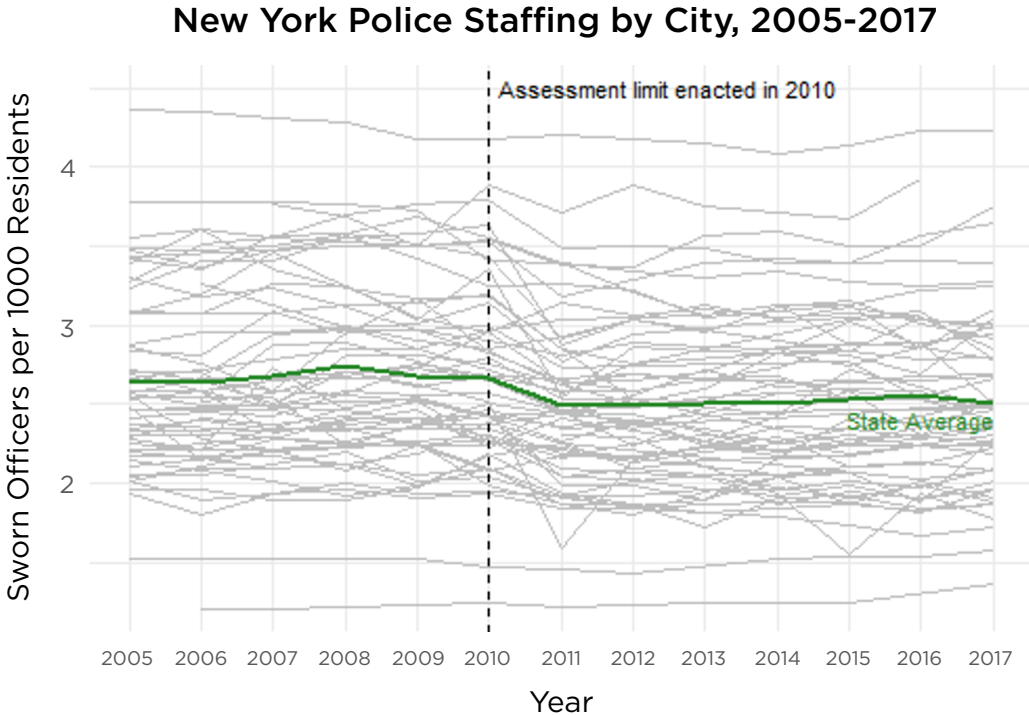
TELs are situated in a larger mix of legislative, constitutional, and regulatory institutions that structure state-local relationships, but their importance to local autonomy and their historical significance separate them from other discussions of home rule²³ and from other discussions of preemption because, in the words of Frug and Barron, “home rule without money is meaningless.”²⁴ When states limit the ability of city lawmakers to make policy decisions and allocate resources, there are tangible consequences for citizens’ quality-of-life.²⁵ City officials and community members may feel the pinch from state limits on revenues and expenditures, but quantifying the effects of TELs is challenging, especially on more than a case-by-case or anecdotal basis.

The purpose of these limits, whether enacted by legislators or direct democracy, is to limit the size and resources of local government, and so most empirical analyses of the impact of TELs seek to identify if they’re “working” by examining how they are related to local budgets and fiscal capacity. Yet, as noted above, local officials are creative and adapt to these new rules, so aggregate budget totals can obscure loss of services and administrative capacity. Simply put, rising costs and strategic management can leave constrained cities appearing as fiscally healthy but suffering from loss of personnel to deliver services. This analysis investigates that assumption in two ways. Using annual data on sworn officer FTEs from 2005-2017,²⁶ the analysis asks: 1) do states lose service capacity (measured as sworn officers per 1000 residents) as they strengthen Tax and Expenditure Limits, and 2) when states enact TELs, do cities in those states see a decline in police officers per resident?

In order to understand how TELs influence local service capacity across states, the analysis compares the annual change in law enforcement officers per capita in a state before and after any TEL changes in the years 2005-2017.²⁷ Much like previous work on the budgetary impacts, when comparing across states, there is no evidence that strengthening a state TEL was associated with fewer officers per capita.²⁸ This state-level comparison, however, likely obscures what is occurring in specific states before and after TEL adoptions.

Taking a deeper look within a state that strengthened its TEL during the same time period allows a view into the more local effects of state preemption for cities that are facing the same state-level mix of policies. As an example, New York strengthened its TEL substantially by adding an assessment limit in 2010. Annual police FTEs by city, along with the state average, are illustrated in Figure 1. Comparing law enforcement FTEs before and after the assessment limit, the average effect of the TEL on service capacity was a drop of 0.85 FTEs per 10,000 residents.²⁹ This decrease is small but statistically significant, suggesting that further exploration of service areas and personnel that are more susceptible to cuts is worthwhile.

FIGURE 1: LAW ENFORCEMENT FTEs PER 1,000 RESIDENTS, 2005-2017



If law enforcement is the last service area to be cut, with preliminary evidence to suggest that even police employment declines over the medium- to long-term after states impose TELs, other important services may be suffering disproportionately. Certainly, one state and one service is a limited analysis, yet these results indicate that more rigorous analysis of single states on relevant measures of service capacity is a promising avenue for evaluating the impact of TELs on cities.

TELs: How Can Cities Use Data to Confront Preemption?

Tax and Expenditure Limits are a difficult combination of policy for local officials: politically popular for those who don't have to manage the city budget, while also having diffuse impacts that are complicated to quantify and communicate. Cities advocating collectively at the state level for more revenue flexibility face challenges in communicating the real impacts of state decisions, but lessons from this research can help target those efforts more strategically.

NEW DATA OPENS DOORS FOR BETTER ANALYSIS

The data collected by The Policy Surveillance Project, with the support of the National League of Cities and the Robert Wood Johnson Foundation, are a rich addition to the study of Tax and Expenditure Limits. They encourage researchers to decouple the study of TELs from exclusively fiscal outcomes and consider the implications on local government more broadly. Fiscal outcomes are important, but limits on the ability of local governments to raise revenue and spend in accordance with local needs are not just limits on budgets – they shape how cities allocate personnel, maintain infrastructure, and build equitable communities. The dataset and interface provide easy access to rich detail and links to statutory and constitutional language rather than a categorical code in a spreadsheet, so subsets of states with similar policies can be selected for comparison, or the dimensions of the policies in a single state can be modeled more precisely.

FOCUS ON SERVICE CAPACITY TO CONNECT POLICY TO CONSEQUENCES OVER THE LONG-TERM

The dynamics around police department staffing and budgeting is undergoing a massive public reckoning, and as local officials grapple with history and data of policing in their communities, and begin exploring alternative forms of public safety that ensure all residents are safe, the utility of using police FTE data as lagging indicators of local service capacity is likely limited. That said, as cities collectively advocate to voters and state legislators for expanded revenue authority, some kind of tangible measure of

service capacity can help shift the discussion from, “what do other state policies look like?” and, “how much more (or less) money do we have to spend?” to a debate centered more precisely on what communities will gain or lose under policies in each state. The long history of states imposing TELs on cities indicates that cities need to be prepared to evaluate the impacts of potential changes and updates to TELs at any time. Municipal leagues and university partners can inform the policy conversation by helping identify state-specific key services (and measures of those services) that are comparable across cities and then providing independent research on tangible effects so that policymakers at all levels of government are more informed by context-sensitive evidence of the effects of TELs and other limitations on local authority.

USE POLICY DATA TO INFORM AND COMMUNICATE DIFFICULT BUDGET CHOICES

City officials feel the pinch of tax and expenditure limitations on a day-to-day basis, and the current environment makes navigating that pressure even more challenging. Increased expenditures and loss of revenues due to COVID 19 along with community demands for reimagining public safety spending have created conditions where many cities have to dramatically rethink, reprioritize, and restructure services. This will be an atypical budget year on many fronts, and the results of this analysis suggest a powerful role for data as cities weigh difficult decisions to adapt to the reality of 2020. The stable nature of law enforcement FTEs indicates that services have not equitably borne the weight of the pressure created by state-level limits. Over time, law enforcement being the last to feel the effects of fiscal challenges may have created internal imbalances, and the current environment presents an opportunity to look at similar data over time by department in each city to inform discussions about how to better align spending with community needs and preferences.

Budgets represent the accumulation of policy choices over time, and in managing through these difficult decisions, cities have the opportunity to reexamine the legacies of state and local policies. Data on state and local policies like that provided by LawAtlas can help cities consider options and communicate the real, tangible impacts of decisions to the public and state and federal officials and ultimately inform the conversation for state and federal assistance and long-term revenue flexibility.

Conclusion

State preemption of local authority is not a recent phenomenon; it has shaped the fate of cities for decades, especially via tax and expenditure limitations. As illustrated in this research, which examines the relationship between TELs and local service capacity, the connection between these state decisions and local outcomes is difficult to measure. Building on results that show adding more restrictive limits had small but significant negative effects on city law enforcement staffing, cities and state leagues can identify measures of service capacity that are consistent and meaningful across cities to develop data-driven communication to state officials and residents. As cities face the crises of COVID-19, racism, and public safety, comparing the resiliency of law enforcement to other public services and identifying shared understanding of the impacts of revenue losses will be key to engaging residents and advocating at the state and federal levels. Results of this research suggest paths to do that in a consistent way, with an eye to both the historical impacts of TELs and the short- and long-term consequences of state preemptions of local authority.

Endnotes

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- ⁹ The dataset only includes statutory provisions. Case law interpreting the statutes is not included.
- ¹⁰ Unless otherwise noted, statutes are coded as TELs/preemptions even if they contain override provisions.
- ¹¹ Voter overrides are not considered full disclosure laws unless they require specific public disclosure.
- ¹² For purposes of this research, each state's laws were accessed from the web application available at lawatlas.org, and the date of initial enactment was recorded to create a state-level panel dataset of TEL adoption over time.
- ¹³ See Amiel, Deller, and Stallmann (2009) and Maher et al. (2016) for alternate approaches
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- ²⁸ The measure of TEL strength is an additive measure, coded as 1 for each of the 6 components adopted by a state in a given year. Adoption of a new component in a year was considered a policy change/TEL increase. Again, similar to Kousser, McCubbins, and Moule (2008), the same model was run for each individual component to investigate whether one particular type of TEL might have an affect on local service capacity, and there was no evidence to support the hypothesis that TELs