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# Easing State Restraints on Local Taxing Power Can Strengthen Democracy, Promote Prosperity and Equity

By Wesley Tharpe[1]

State policymakers in recent years have increasingly sought to countermand local decision-making across a range of issues. Although states have long regulated the parameters of local authority within our broader constitutional system, this new wave of state restrictiveness — widely referred to as "preemption" — represents a distinct trend: an effort by mostly conservative state policymakers to stretch the long-standing norms underpinning state-local authority and block communities — especially those with a track record of enacting forward-looking policies and, in many cases, where the population is racially and ethnically diverse — from advancing social, economic, or fiscal solutions of their choosing. State constraints on local *taxing* power, while fairly distinct from other common forms of preemption, are also common and pose a barrier to communities' ability to address pressing issues of local, state, and national concern.

States have always restricted the ability of cities, counties, school districts, and other local jurisdictions to fully control their own tax policy. Many restrictions are baked into decades- or even centuries-old statutes or state constitutions governing the rules around state and local power and are rarely questioned due to their longevity. Though these underlying limits often exist for sensible reasons (such as easing tax administration and compliance), they have also fostered tax systems that restrict localities' ability to raise adequate revenues and make local taxes fall more sharply on those least able to pay.

A second, more damaging layer of state restrictions on local taxing power has emerged mostly over the past few decades from less sensible and less defensible impulses. These include the proliferation of policies embodying a more hostile form of state control over local taxing authority, such as state-mandated caps on local property taxes and broader tax and spending constraints on local governments. These additional constraints have sharply eroded local communities' ability to raise adequate revenues and, in turn, starved their ability to support good schools, housing, health care, and other investments that people need. Meanwhile, state and federal aid to localities has

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generally fallen in recent decades (with the exception of the historic, temporary federal response to COVID-19), without reducing the expectation for local officials to provide (and fund) core services.

This means that when a city, county, or other local government wants to address important concerns like underfunded schools, aging infrastructure, or insufficient community services — it is likely to find itself stymied by layers of state restriction. In effect, this web of constraints *both* limits communities' ability to raise sufficient revenues *and* pushes them to over-rely on more regressive revenue sources, such as user charges and criminal fines. For example:

- In **Alabama**, state legislators in 2020 preempted an effort by Montgomery officials to impose a new 1 percent occupational tax (or payroll tax on anyone working within the city), which was intended to help boost public employee salaries and increase funding for schools and other services. Beyond blocking an important new source of revenue for local investments that would have provided a targeted benefit to people who need it most, including the city's communities of color, the move also stands as a stark case of a predominantly white state governing majority overriding a diverse, majority-Black community's democratic authority to govern.
- In **California**, a constitutional amendment — Proposition 13 — approved by voters in 1978 imposed a severe set of property tax limits on localities statewide, which still exist today. The measure cut local property tax revenues by more than half (53 percent) essentially overnight and, over time, fostered an overreliance on regressive local revenue sources such as fees and fines, as well as significant disinvestment from K-12 schools, higher education, and other priorities.
- In **Colorado**, an interlocking pair of restrictions — one limiting localities' ability to tax and spend generally (the so-called Taxpayers' Bill of Rights, or TABOR) and another restricting local property tax authority (the recently reversed Gallagher Amendment) — led to considerable underinvestment over recent decades in schools and other local services, such as forcing many rural and high-poverty districts to resort to a four-day school week.
- In **Washington State**, the state courts stymied a 2017 effort by Seattle to apply a personal income tax to some high-income households, due to a complex web of state statutes and constitutional provisions they interpreted as blocking localities' authority to impose taxes on income (or to apply progressive rates). The new tax would have raised an estimated $140 million a year for efforts to fund affordable housing, education, and transit; fight climate change; and lower property taxes and fees for people least able to pay.

To better meet their residents' needs, states should embrace a more democratic, community-minded approach by reversing the trend of strict, reactive controls on local taxing power, while also reexamining more foundational limits to gauge whether they make sense in today's fiscal and economic environment. Specifically, states should:

- **Allow communities to tax specific sources of revenue that are within their regular policymaking authority.** States should repeal existing statutes, and avoid enacting new ones, that target local revenue policies — such as taxes on plastic bags, sugary beverages, and ride-sharing services (which appear to fall within localities' existing domain of authority) — simply because those local policies may conflict with the policy preferences of current state governing majorities. Even when reasonable policy arguments exist against these specific sources of revenue, communities should be free to weigh relevant pros and cons based on their own needs.

- **Roll back, reform, and avoid enacting strict new limits on local property taxes and other revenue-raising tools.** While some state regulation of the size and shape of local revenue systems is sensible, many of the policies enacted in the past few decades appear less about sound fiscal policy than an effort to undermine funding for public services and community self-determination more generally. Reforming or dismantling these restrictions could unlock significant revenues and enable critical local investments in schools, housing, non-police alternatives to public safety, and other tools to advance equity and broad-based prosperity.
- **Explore ways to provide localities a broader, more diverse suite of revenue-raising tools, with an eye toward equity and ability to pay.** In addition to relaxing existing limits, states could also consider authorizing additional local revenue sources as a way to diversify local revenue streams while making them more equitable and based on ability to pay. This could help bridge the gap between residents' expectations for quality schools, infrastructure, and local services and the (often inadequate) supply of funds available from current revenue sources including state and federal aid. The main way to do this would be creating new statewide frameworks that enable localities to more robustly tax personal income or, in some cases, property or personal consumption. For example, in a hypothetical scenario where *all* states were enabled to tax personal income to the degree Maryland currently does, localities nationwide would have collected an estimated $270 billion more in 2020 than they did (they collected $1.25 trillion).
- **Over time, reexamine underlying legal rules that govern local fiscal power to gauge whether they still fit communities' modern needs.** State policymakers can take a close, renewed look at their statutory and constitutional provisions regulating local fiscal power, such as home rule statutes and uniformity clauses, to see whether potential revisions might improve the structure of local revenue systems, honor the democratic spirit of our nation, and provide a better fit for communities' needs today.

## Local Tax and Spending Choices Play Vital Role in States' Success

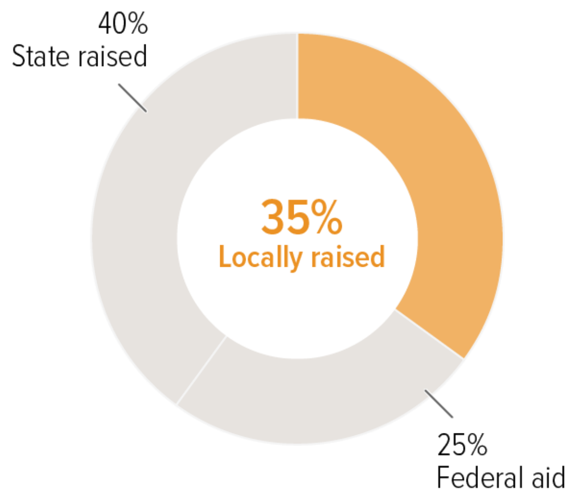
States' ability to prosper economically, and to be places where workers, families, and businesses can thrive, depends in large part on access to reliable public services and amenities: good schools, well-staffed hospitals, safe communities, access to affordable housing and attractive amenities like parks and libraries, reliable infrastructure, and support services for children, older adults, and other vulnerable populations. Access to these resources, inherently, depends on state and local policymakers' ability to tap into adequate tax revenues to support adequate levels of investment. In state policy debates, the contribution of local governments (cities, counties, school districts, and other jurisdictions) in raising sufficient revenues is often overlooked.

Nationwide, revenues raised by localities account for about $1 of every $3 available for public investment within states, with a combination of state-raised revenue and federal aid making up the rest.[2] (See Figure 1.) The specific mix varies from state to state, from 12 percent in Vermont to 44 percent in Colorado and Florida, due to a range of factors.[3] But in every state, locally raised dollars are an important contributor to public funds (state-by-state data are available in Appendix 2 and https://www.cbpp.org/research/state-budget-and-tax/easing-state-restraints-on-local-taxing-power-can-strengthen#sfp10-25-21).

FIGURE 1

**Local Governments Raise One-Third of Funds Available to States and Localities**

Share of U.S. state-local general revenue, 2020




Source: CBPP analysis of U.S. Census Annual Survey of State and Local Government Finances

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Those locally raised dollars support a range of services that people rely on and enable communities to thrive. On average, about 40 percent of direct local government spending goes to K-12 public education, most of it carried out by local school districts that are often independent from city or county governments.[4] The next largest local spending categories are health and hospitals (10 percent) and police services (6 percent). Beyond that, locally raised revenues help fund a diverse set of needs including housing services, roads and transit, and fire protection, among others.[5]

[2] Revenue generated locally through taxes and fees — technically known as local "own-source" revenue — accounted for 35 percent of the combined funds available to state and local policymakers in 2020. (State-generated revenues covered another 40 percent and federal aid covered the remaining 25 percent.) The federal share of combined state and local revenues was slightly higher in 2020 than in much of the recent past, due to COVID-19 relief and recovery measures in in 2020 and 2021, when Congress transferred a large amount of funds to state governments as part of the CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act (part of the December 2020 omnibus bill), and the American Rescue Plan.

[3] For example, some states — especially those with relatively large shares of residents living in poverty — receive higher federal aid through formula-driven programs such as Medicaid. Also, some states choose to push more revenue-raising responsibility to localities, which drives up the state's share of locally raised revenues; other states choose to keep most taxing power at the state level but (in some cases) provide larger aid to localities.

[4] While local governments carry out most K-12 spending, a large share of the funding comes from state and federal revenues. In the 2018-2019 school year, states provided 46.8 percent of K-12 education funding, local governments provided 45.5 percent, and the federal government provided 7.8 percent. U.S. Department of Education, National Center for Education Statistics, "Digest of Education Statistics 2021," Table 235.40.

[5] Local governments spent $1.8 trillion directly in the 2020 budget year. Local governments' direct expenditures were larger than their revenue collections ($1.25 trillion) because localities often administer programs with funds transferred from state governments. States transferred over $581 billion to local governments in 2020. A portion of state funding comes indirectly from the federal government in the form of pass-through grants. See Urban Institute, "State and Local Expenditures," https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/state-and-local-expenditures.

When people and businesses in a state want to improve these services, local governments are often the first place they turn. And more so than states and the federal government, local policymakers can find it inherently difficult to simply pass the buck — if schools are declining in quality, housing options rising in price, or parks are poorly maintained, voters often voice their concerns and seek to impose accountability most strongly on their elected officials closest to home.

Indeed, while localities' ability to meet their constituents' needs is partially covered by tax dollars raised elsewhere, local policymakers must fund a large portion themselves. Nationwide, state and federal transfers to help cover the cost of local services accounted for about a third (34.7 percent) of general[6] revenue available to local governments as of 2020.[7] That means localities have to raise the remaining two-thirds themselves.

But as we detail in the following section and throughout this report, the tools available to local governments to effectively do so are tightly constrained — which limits communities' ability to meet their own needs and to support the broader success of states as a whole.

## Complex Web of State Restrictions Limits Communities' Fiscal Options

When residents and leaders in a city, county, town, or other unit of local government identify public spending needs that exceed existing streams of revenue, they may seek to tax themselves to fund the service, and they may seek a range of options for how best to levy those taxes. Levying new taxes to respond to spending needs is a reasonable approach to fiscal policy in any democratically governed community. But despite their core role in meeting the needs of state residents and businesses, localities are likely to find themselves with far fewer taxing options than their counterparts at the federal and state level. Sometimes, in fact, they have no options at all, or their only options are deeply problematic.

Local governments' powers are not protected by the U.S. Constitution. In fact, unlike states, the federal government, and tribal nations, local governments are not mentioned in the document at all, meaning that each locality is a creation of the state in which it is located. Based on this fact, courts have historically given states broad power to structure their relationship with their local governments. States *could* use this authority to encourage and empower local taxing authority, such as by requiring localities to tax at specific minimum levels to fund public schools. But instead, they have mostly constrained and limited that local authority.[8]

As this report describes, localities face a complex web of constraints that impose some distinct and often harmful limits on their ability to effectively meet their residents' basic needs or to advance

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[6] State and local "general" revenues exclude some additional, relatively modest funding sources often earmarked for specific purposes, namely revenues from water, gas, electricity, and transit utilities; government-run liquor stores; and public insurance trusts such as employee retirement, unemployment compensation, and workers' compensation systems.

[7] Note that the state aid total includes indirect federal funds that are initially allocated to states. For example, the federal government sends K-12 education funds to state governments that then distribute the money to local governments.

[8] In some cases, such as uniformity clauses and certain types of tax and spending caps, limitations on local revenue-raising also apply to state policymakers as well, with similarly harmful effects. Samantha Waxman, "Rigid Limits on State Taxes and Spending Damage Families and Communities," CBPP, April 28, 2021, https://www.cbpp.org/blog/rigid-limits-on-state-taxes-and-spending-damage-families-and-communities.

durable policy solutions to help make communities more prosperous and equitable. As a general framework, these constraints fall into two main categories:

- **Deeply embedded rules on local taxing power** that define the scope of communities' authority to raise revenue, such as which taxes they can and cannot levy and how those taxes need to be structured. Many of these are long-standing and commonly accepted, but that doesn't mean they are always warranted.
- **Caps, limits, and reactive preemptions**, many of which are newer, put ceilings on how much money localities can raise, or that deprive localities of specific taxation authority. These may carry an explicit or thinly disguised intention of shrinking local revenues and power.

## Deeply Embedded Rules Constrain Localities' Taxing Leeway

There are sensible reasons why every state, to at least some extent, sets guardrails for which taxes localities can levy and how those taxes must be structured. Sound standards and guidelines can reduce complexity, improve administrative efficiency, reduce race-to-the-bottom tax competition, and make it easier for taxpayers to comply. For example, as noted below, states with sales taxes nearly always specify the list of items that may or may not be taxed, and many states with property taxes promote specific best practices in property assessment.

Too often, however, state rules governing local taxation are accepted at face value without considering options for relaxing them. In fact, there's wide variation from one state to another about how localities can tax, and these rules have evolved over time. An understanding of how current rules came into place may help policymakers understand that, in fact, they may be able to give localities more options than they currently have.

At the ground floor of state restrictions on local revenues is a set of decades-old (in some cases, centuries-old) constraints on local policymaking embedded in provisions of state constitutions and statutes that govern fundamental components of state-local relations. Although these underlying, long-standing guardrails exist for generally sensible reasons, they do impose some noteworthy limits on localities' governing authority and thus are ripe for reexamination. Within the field of state-local relations, two topics are especially important to tax policy: home rule and uniformity requirements.

### "Dillon's Rule" and Limited Home Rule

Home rule is designed to provide more flexibility by delegating some policymaking authority from the state to its subunits of government. Though limited to certain spheres of policy and subject to constant judicial interpretation, home rule's general purpose is to expand local autonomy and limit state control over many local affairs. Originating among progressive reformers in the late 1800s, the principle emerged as an alternative to a more rigid, traditional form of state-local division known as Dillon's Rule, in which localities could undertake essentially no governing task without explicit, prior authorization from state legislatures.[9] Although a precise accounting is challenging given the

[9] Twelve states adopted an early, somewhat limited form of home rule between 1875 and 1912. A second wave of home rule, starting in the 1950s, generally shifted the presumption of home rule toward broader local initiative and power. See National League of Cities, "Cities 101 — Delegation of Power," https://www.nlc.org/resource/cities-101-delegation-of-power/.

sprawling diversity of legal frameworks across states, 45 states appear to provide localities with at least some degree of home rule.[10]

Crucially, however, a fundamental determinant, and constraint, on local governments' ability to govern their own tax policies is the fact that states generally do *not* include taxing power within this broader grant of state authority.[11] Yet even here, there are some limited exceptions. For instance, Ohio's home rule provisions have been interpreted by state courts to include the authority to levy local income taxes.[12] And in three states — Alabama, Colorado, and Louisiana — localities with home rule charters can exercise some control over their own sales tax bases, namely by taxing a different mix of goods and services than are taxed statewide.[13] (See appendix, "Some Examples of State Home Rule and Local Taxing Provisions.")

What this means as a practical matter, today, is that local jurisdictions face much steeper constitutional or statutory barriers to enacting new taxing policies themselves, relative to their parent states. Put plainly, while Georgia policymakers could decide at any time to increase their state's income tax, Atlanta policymakers lack the authority to create one of their own. Or, while state policymakers in Maine could decide to raise the state-level sales tax anytime they wish, their local counterparts in Augusta or Portland lack the legal authority to enact one. Instead, localities must seek state approval for new revenue options generally, and even when such tools are provided, the specifics of the policy are still tightly regulated.[14]

### State Uniformity Clauses

"Uniformity clauses" in state constitutions are another underlying limit on local taxing authority. First adopted in Tennessee in 1796, uniformity clauses today exist in at least 44 state constitutions,

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[10] Only Idaho, New Hampshire, Vermont, and Virginia appear to still apply the stricter Dillon's Rule system statewide (a majority of states still apply it in some cases, such as to differing jurisdictions of different sizes). The fifth remaining state, North Carolina, has traditionally been characterized as a Dillon's Rule state but appears to sit in a legal gray area, with some components of both systems. CBPP review of "'Home Rule in the 50 States' Memos Examine the Nature and Scope of Local Authority," Local Solutions Support Center, March 22, 2021.

[11] See Dale Krane, Platon N. Rigos, and Melvin B. Hill, *Home Rule in America: A Fifty-State Handbook,* Congressional Quarterly, 2001, table A1, p. 476, https://www.researchgate.net/publication/278667226_Home_Rule_in_America_A_Fifty-State_Handbook.

[12] "Municipal Taxation: Nonresident Income," Ohio Legislative Budget Office, April 12, 2021 https://www.lsc.ohio.gov/documents/reference/current/membersonlybriefs/134%20Municipal%20Taxation%20Nonresident%20Income.pdf

[13] "State Sales Taxes in the Post-Wayfair Era," Tax Foundation, December 12, 2019. https://taxfoundation.org/state-remote-sales-tax-collection-wayfair/

[14] States' historic approach of excluding, or very tightly prescribing, taxing power within their home rule frameworks contrasts with other domains of policymaking, where localities are typically able to exercise broader control. Home rule generally provides localities with the most leeway over their own governing structure, such as dividing legal decision-making powers between a mayor and city council, and personnel matters related to their public employees, such as setting wages for city or county contractors, elected officials, and contractors. Even in cases where home rule powers are more expansive, however, state policymakers regularly override (or "preempt") local decisions in cases where they disagree (as has increasingly occurred in response to forward-looking social policies and economic reforms, especially in more diverse localities and communities of color). National League of Cities, "Local Government Authority," 2016, https://web.archive.org/web/20160804131854/http://www.nlc.org/build-skills-and-networks/resources/cities-101/city-powers/local-government-authority.

although the interpretation and scope of such provisions vary considerably among the states.[15] Like home rule limitations, they may be rooted in sound governance principles but may have unjustifiable consequences.

At a basic level, uniformity clauses are based on the widely accepted idea that similar things (be they products, services, activities, or forms of property) must be taxed similarly, for example by not applying widely different property value assessments to two similar buildings or by levying different sales tax rates to one brand of cereal over another. Historically, the general idea behind such language has been to prevent officials from granting special tax treatment to influential people or special interests, such as a powerful local business negotiating a lower property tax rate.[16] In court cases, property owners have often used uniformity clauses to argue they have been unfairly singled out, typically by having a higher assessment than similarly situated properties.

These clauses, on one hand, appear to be relatively well-intentioned and serve as a reasonable check against special or arbitrary tax treatment. At the same time, they (and the way courts in a few states have interpreted them) also can present an obstacle to more robust local revenue-raising policies — especially when local (and sometimes state) policymakers are seeking to adopt taxes based on ability to pay, such as graduated income taxes or higher tax rates on high-value housing.

On income taxes, courts in four states — Massachusetts, New Hampshire, Pennsylvania, and Washington — have interpreted their uniformity clauses to prohibit a graduated rate structure (either locally imposed or statewide) where higher tax rates are applied to higher levels of income.[17]

Washington provides a clear example of how this strict legal posture can lead to real world consequences for local communities striving to raise new revenues for crucial investments. In 2020, that state's court system struck down Seattle's bid to levy a targeted tax rate on high-income households — a proposal that would have raised sizable funds for housing, education, and other needs from a sliver of affluent residents — due to the underlying uniformity requirement. (See box, "Seattle's Income Tax Debate Highlights Complex State Tax Restrictions.")

Uniformity clauses may also complicate policies designed to better base local property taxes on ability to pay, such as by applying higher rates to higher-value homes[18] or assessing large corporations differently than small businesses. This seems particularly likely for the four states (Massachusetts, New Hampshire, Pennsylvania, and Washington) with the strictest court

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15 The constitutions of New Hampshire, Rhode Island, and Vermont refer to proportional or fair distribution of expenses or contributions but not "uniformity," while the constitutions of Connecticut, Iowa, and New York are silent on the matter. https://docs.legis.wisconsin.gov/misc/lrb/reading_the_constitution/reading_the_constitution_1_2.pdf and https://publichealthlawcenter.org/sites/default/files/resources/State-Uniformity-Sugary-Drink-Taxes-2017.pdf

16 Wisconsin's constitution, for instance, includes language dating to 1848 stating that "the rule of taxation shall be uniform," which state courts subsequently described as being meant to "protect the citizen against unequal, and consequently unjust taxation." https://docs.legis.wisconsin.gov/misc/lrb/reading_the_constitution/reading_the_constitution_1_2.pdf

17 "Report of the Pennsylvania Bar Association, Constitutional Review Commission," October 20, 2011, http://www.pabar.org/pdf/crc%20report.pdf.

18 Michael Leachman and Samantha Waxman, "State 'Mansion Taxes' on Very Expensive Homes," CBPP, October 1, 2019, https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes.

interpretations.[19] For example, Pennsylvania's Supreme Court has explicitly barred the establishment of different tax rates for different *categories* of property — such as residential, commercial, and industrial — even though such systems are common in other states.[20] As a result, Pennsylvania localities are unable to raise additional property tax revenues from large commercial buildings or high-value homes without also raising taxes on small businesses or lower-income property owners.[21]

Lastly, uniformity clauses could pose problems for other future local revenue-raising measures, if plausible legal arguments could be made that a certain type of good or service was being taxed unfairly relative to similar things. For example, lawsuits in some states, including Illinois and Pennsylvania, have sought to invalidate local soda taxes on uniformity grounds — specifically the claim that one beverage shouldn't be taxed differently than another — though such efforts have not yet passed court muster.[22]

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[19] The extent to which uniformity clauses might limit progressive property tax reforms in other states is less clear and would require more research. On one hand, many states already have long-standing systems (known as "classification" systems) that allow localities to tax different categories of property, such as homes and businesses, differently — or in other words in a *non-uniform* manner (typically by imposing different tax rates on different types of property or by imposing a uniform tax rate but assessing different types of property at different percentages of value). At the same time, applying different tax rates *within* the same category — for instance applying higher property tax rates to higher-value homes or more profitable industrial tracts — appears relatively uncommon. One exception is the District of Columbia, which has three different property tax rates for residential properties — 0.85 percent of assessed value for occupied homes, 5 percent for vacant, and 10 percent for blighted tracts — along with three different rates for commercial properties, with higher rates applied to more valuable tracts.

[20] Twenty-four states and the District of Columbia currently have a classification system for local property taxes. https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/state-state-property-tax-glance/property-tax-data-visualization#table=table_2&row=table_3_classified_system

[21] That state's strict legal view on uniformity has also harmed local revenues in other ways; for instance, in 2021 Philadelphia had to refund $48 million to commercial property owners, under the logic that the city's 2018 choice to reassess commercial properties only (without also assessing residential or industrial properties) was a uniformity violation. See https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2022/03/how-pennsylvanias-uniformity-clause-affects-property-and-wage-taxes-in-philadelphia and https://www.ballardspahr.com/insights/alerts-and-articles/2021/08/philadelphia-suffers-big-uniformity-loss-in-commonwealth-court-tax-ruling.

[22] Public Health Law Center, "State Uniformity Doctrines and Sugary Drink Taxes," October 2017, https://publichealthlawcenter.org/sites/default/files/resources/State-Uniformity-Sugary-Drink-Taxes-2017.pdf.

### Seattle Income Tax Debate Highlights Underlying Tax Rules' Complex Role

In 2017, the Seattle City Council passed a measure applying a 2.25 percent tax to total income above $250,000 for individuals ($500,000 for married couples filing jointly). The tax would have generated an estimated $140 million a year and would have cost $10 million to $13 million to set up, plus $5 million to $6 million per year to manage and enforce.[a] The city planned to use the revenue to lower property taxes and other charges that fall harder on people who are less able to pay; address homelessness; fund affordable housing, education, and transit; replace federal funding lost through budget cuts; create green jobs and meet carbon-reduction goals; and administer the tax.

The measure faced three legal challenges: (1) the state constitution says taxes must be uniform within a class of property; (2) a 1984 state law bars cities from taxing net income; and (3) cities in Washington State must have state authority to enact taxes. In King County, a Superior Court judge stopped the measure before the city began collecting money, ruling that the tax violated the 1984 law.[b] The Court of Appeals, however, concluded that while Seattle's measure violated the ban on cities taxing net income, the ban *itself* was unconstitutional because the legislature breached a procedural rule when it passed the 1984 law. In 2020, the Washington State Supreme Court refused to take up the measure, reaffirming the lower court decisions and in effect striking down the measure for the final time.[c]

The result of the court saga is that Washington localities can now choose to impose a 1 percent flat income tax, due to the invalidating of the 1984 law, although none have chosen to do so.[d] At the same time, localities may *not* set higher income tax rates on higher incomes, because the state interprets its constitutional uniformity requirement as barring graduated income tax rates.

a Daniel Beekman, "Seattle City Council approves income tax on the rich, but quick legal challenge likely," *Seattle Times*, updated July, 11, 2017, https://www.seattletimes.com/seattle-news/politics/seattle-council-to-vote-today-on-income-tax-on-the-wealthy/.
b Daniel Beekman, "State Court Appeals rules Seattle's wealth tax is unconstitutional, but gives cities new leeway," *Seattle Times,* updated July 16, 2019, https://www.seattletimes.com/seattle-news/politics/state-court-of-appeals-rules-seattles-wealth-tax-is-unconstitutional-but-gives-cities-new-leeway/.
c Daniel Beekman, "Washington state Supreme Court denies Seattle's bid for income tax on wealthy households," *Seattle Times*, updated April 4, 2020, https://www.seattletimes.com/seattle-news/politics/washington-state-supreme-court-denies-seattles-bid-for-income-tax-on-wealthy-households/.
d Ted O'Neill, "Almost two dozen municipalities in Washington state have banned income taxes," Center Square, February 8, 2022, https://www.thecentersquare.com/washington/almost-two-dozen-municipalities-in-washington-state-have-banned-income-taxes/article_258c747c-8922-11ec-982f-8f5232e0055a.html

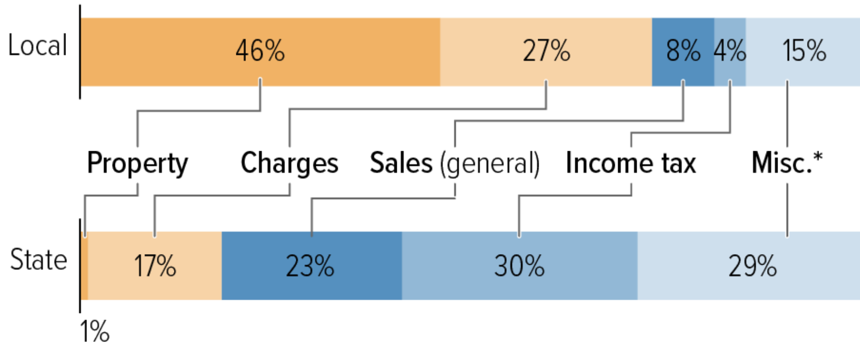
## Diversity of State Rules Means Communities' Tax Tools Differ Widely

One outgrowth of this sprawling diversity of legal frameworks is that local revenue systems (in all but a few cases) fundamentally comprise *only* the taxes and fees specifically prescribed to them by their parent states. In all states, this taxing authority includes property taxes and various sorts of "user charges" (including payments for services like parks and sanitation and levies on institutions such as hospitals and airports), as well as regressive fees and fines connected to local policing and courts. Some states allow for local sales taxes and, to a lesser extent, local income taxes. That's largely why property taxes and charges account for about three-quarters of locally raised revenue nationwide, compared to only about one-fifth of state-raised revenue. (See Figure 2.)

FIGURE 2

## Local Revenues Heavily Reliant on Property Taxes, Charges

Share of general own-source revenue, by source, 2020




*Misc. taxes and other revenue

Note: “User charges” are a Census spending category that includes a swath of local levies such as household payments for specific services including water, sewerage, parks, trash pickup, and school activities as well as fees paid by local institutions like airports and hospitals.

Source: CBPP analysis of US Census Bureau Annual Survey of State and Local Government Finances

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Over time, a number of states have taken steps to authorize additional local revenue-raisers, such as personal income and sales taxes imposed at the local level, often to offer localities a way to diversify their tax bases, or sometimes to compensate for falling property values. However, because states must explicitly authorize new tax options, the specific mix of revenue tools available to local communities varies considerably.

Localities are able to levy taxes on income, sales, and property in just nine states. In 34 other states, localities levy at least two: a combination of property and sales taxes in 27 states and income and property taxes in seven states. In the remaining seven states, localities can only employ property taxes (along with various charges as previously noted).

In some cases, all local jurisdictions within a state (or at least all of a certain type of jurisdiction, for example cities as opposed to counties or vice versa) are authorized to levy the additional tax. In others, states have empowered specific communities to levy a specific tax, such as personal income taxes in cities including Denver, Kansas City, and New York City or sales taxes in Philadelphia and Tupelo, Mississippi. (See Figure 3. Appendix 3 has state-by-state details.)

FIGURE 3

**Localities in Only 9 States Can Levy All Three Major Types of Taxes**

Local general taxing authority by state


Note: D.C. levies all three major taxes, but differs from states in the context of this report in that it does not have subunits of local government levying other or additional taxes. In states that allow for local income and sales taxes, the authority to tax is often limited to certain types of jurisdictions (for example counties, but not cities) and in some cases is granted to only specific jurisdictions (such as Wilmington, Delaware authority to tax income). Local income taxes are also commonly limited to wages and salaries, unlike state and federal income taxes that also capture income from capital gains.

Source: CBPP analysis

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In addition to typically requiring explicit authorization from state legislatures, locally imposed income and sales taxes work best if they have some sort of statewide framework for collection and implementation; for example, the Maryland Department of Revenue plays the central role in counties' ability to levy personal income taxes in that state (namely by collecting the local tax as part of residents' annual state income return), rather than individual counties being expected to collect and administer the tax themselves. And in all but a handful of states, state revenue departments collect local sales taxes alongside those imposed statewide and then remit the revenue back to the jurisdiction where it was collected.

Local income and sales taxes also must abide by some common set of state-defined rules; for example, communities that have been authorized to levy sales taxes almost always face limits on their ability to do that, such as maximum rate caps and voter approval requirements. Local income taxes are also tightly prescribed, such as state-imposed rules on maximum allowable rates. A more detailed overview of local income and sales taxes is in Appendix 3.

## Second, Stricter Layer of Tax Limits Imposes Undue Harm

A second layer of constraints on local fiscal policy consists of (mostly) newer constitutional and statutory limitations that states have enacted to restrict not just the kinds of taxes that localities can levy, but also the amount of revenue localities can raise. Some of these limitations date to the racist backlash to Reconstruction and later the economic shock of the Great Depression. But the newest and largest wave began with the launch of the anti-tax revolt in the 1970's, took on renewed steam in the 1990's with the advent of harsh controls on local (and state) revenues such as TABOR in Colorado and new property tax restrictions in dozens of states, and in the past 15 years has expanded to include state constraints on emerging sources of revenue. This new wave of limits on local fiscal authority has further stripped communities of their already constrained revenue authority.

This strict, largely newer set of tax limits comes in three main forms: (1) restrictions on local property taxes; (2) more general restraints such as revenue and spending caps on localities including school districts; and (3) limits including outright bans on specific local levies such as soda taxes, plastic bag fees, and ride-sharing services.

### Property Tax Restrictions

The oldest and most common form of local tax preemption are limits on the property tax. Some property tax limits date as far back as the late-1800s, especially in Southern states, where they emerged as part of the racist backlash to Reconstruction.[23] But more recently a new wave of property tax limits that launched with the anti-tax revolt of the late 1970's has made them ubiquitous. The number of state-imposed property tax limits nearly doubled in the 1970s and 1980s, and today, 46 states (all but Hawai'i, New Hampshire, Tennessee, and Vermont) maintain some form of state-imposed limit, in many cases multiple different limits.[24] Despite their ubiquity, proposals for new or stricter limitations crop up in state capitols every year.

The specific ways that states have adopted property tax limits, and the precise ways the limits operate, vary considerably. Some states have statutory limits enacted by legislatures, while other limits are embedded in state constitutions and thus are much harder to reverse or amend. Property tax limits can take several forms: they can limit the growth in assessed values, cap allowable rates, or in some cases cap property tax revenue or limit its growth over time.[25]

California has an especially strict (and destructive) set of property tax limits. (See box, "California's Proposition 13 Illustrates Property Tax Limits' Intense Harm.") Other noteworthy examples include:

- **Massachusetts** voters in 1980 approved a statutory provision that included a pair of constraints. One caps property tax revenue at 2.5 percent of the community's total assessed property value in any given year; the other limits the annual growth in property tax revenue to

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[23] Michael Leachman *et al.*, "Advancing Racial Equity With State Tax Policy," CBPP, November 15, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy.

[24] Lincoln Policy Institute of Land Policy, "Significant Features of the Property Tax," https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax.

[25] For more detail and discussion on specific types of local property tax restrictions, see Iris Lav and Michael Leachman, "State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed," CBPP, July 18, 2018, https://www.cbpp.org/research/state-budget-and-tax/state-limits-on-property-taxes-hamstring-local-services-and-should-be.

2.5 percent. As do many property tax limits, the measure includes at least some flexibility, in this case by allowing local officials to override the limit with voters' majority approval.[26]

- **Michigan** has two property tax limits in its constitution, one from 1978 that restricts annual revenue growth to the rate of inflation and a stricter one from 1994 that replaced property taxes with sales taxes as the primary school funding source and further limited property tax revenue growth by restricting the growth in underlying taxable values. As a result of these limits, property tax revenue struggled to recover after a dramatic plunge in property values during the Great Recession, even as property values subsequently rose, a harmful example of what's called a "ratchet down" effect, whereby property tax limits can (depending on their design) arbitrarily suppress revenues after economic downturns.[27] As a result, by 2019 Michigan's property tax revenue still had not returned to 2008 levels in some communities.[28]
- **Oregon** has a complex, interlocking set of property tax restrictions: voters in 1990 passed Measure 5, a new rate limit that capped taxes for school operating budgets at $5 per $1,000 of market value and non-school property taxes at a rate of $10 per $1,000 of market value. Later, Measure 50, approved in 1997, rolled back assessments to 90 percent of 1995-96 values, limited growth in assessed value to 3 percent per year, and instituted permanent tax rates for each locality (voters can enact temporary taxes above their fixed rate with majority voter approval). One noteworthy result of Oregon's property tax regime is that similar properties located next to each other often have very different property tax bills.[29]

A chief effect of the rise in state tax limits since the 1970's has been a weakening of the property tax's ability to adequately funds communities' needs, as described later in this report.[30]

Property tax restrictions have also, both today and in the past, been a noteworthy impediment to efforts to advance racial justice. For instance, through constitutional conventions called in 1875 and 1901 to reestablish white dominance after federal troops and administrators left the state, Alabama adopted constitutional property tax limits — still in effect today — to protect white landowners

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[26] Phil Oliff and Iris J. Lav, "Hidden Consequences: Lessons From Massachusetts for States Considering a Property Tax Cap," CBPP, May 25, 2010, https://www.cbpp.org/research/hidden-consequences-lessons-from-massachusetts-for-states-considering-a-property-tax-cap.

[27] Pew, "Local Tax Limitations Can Hamper Fiscal Stability of Cities and Counties," July 8, 2021, https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/07/local-tax-limitations-can-hamper-fiscal-stability-of-cities-and-counties.

[28] Julie Mack and Scott Levin, "As Michigan real estate values rebound, property tax revenues continue to lag," *Michigan Live*, February 3, 2020, https://www.mlive.com/news/2020/02/as-michigan-real-estate-values-rebound-property-tax-revenues-continue-to-lag.html.

[29] Bethany P. Paquin, "Chronicle of the 161-Year History of State Imposed Property Tax Limitations," Lincoln Institute of Land Policy, April 2015, https://www.lincolninst.edu/sites/default/files/pubfiles/paquin-wp15bp1.pdf and "Oregon," Lincoln Institute of Land Policy, updated February 2022, https://www.lincolninst.edu/sites/default/files/or_january_2022_0.pdf

[30] Lav and Leachman, *op. cit.*

from the possibility that Black policymakers and their allies could return to power and boost property tax rates to fund education and other public services.[31]

More recently, discriminatory underpinnings for new property tax limits have been less explicit, though in some cases, they're clear. For example, in California, the enactment of Proposition 13 in 1978 — while typically attributed solely to a rise in "anti-tax" sentiment — was likely also driven in part by opposition from wealthier, predominantly white taxpayers to sharing their property tax revenues with lower-income, predominantly non-white communities, as the state's courts had recently ordered as part of an effort to make California's education funding more equitable.[32]

Whether explicit in intent or not, arbitrary property tax restrictions often run counter to racial and economic justice in their effects, in large part because they push localities to adopt or expand other, more regressive sources of revenue, such as sales taxes and (especially) highly regressive fees and fines, while also constraining revenues that could go toward investments that support low-income people, communities of color, and other people and places that have been historically disinvested in or excluded.[33]

[31] Other states, namely Arkansas, Missouri, and Texas, also adopted constitutional property tax limits during this time that remain in force today. Michael Leachman *et al.*, "Advancing Racial Equity With State Tax Policy," CBPP, November 15, 2018, https://www.cbpp.org/research/state-budget-and-tax/advancing-racial-equity-with-state-tax-policy.

[32] EJ Toppin, "Blog: Reforming anti-Tax Prop 13 is a Racial Justice Issue," Other and Belonging Institute, June 3, 2019, https://belonging.berkeley.edu/blog-reforming-anti-tax-prop-13-racial-justice-issue

[33] Nicole DuPuis *et al.*, "City Rights in an Era of Preemption," National League of Cities, February 2018, p. 21, https://www.nlc.org/wp-content/uploads/2017/02/NLC-SML-Preemption-Report-2017-pages.pdf.

## California's Proposition 13 Illustrates Property Tax Limits' Harm

Approved by California voters in 1978, Proposition 13 imposed several strict limits on localities' property tax-making power, including: capping property tax rates at 1 percent of purchase price, rolling back property values for tax purposes to the 1975-76 level, capping annual increases in property tax bills at 2 percent, allowing reassessment only when property changes ownership, and requiring approval by voters for all new local taxes (and in many cases, up to two-thirds of voters).[a]

The measure cut local property tax revenues by more than half (53 percent) essentially overnight. In the succeeding decades, Proposition 13 forced the state to shoulder a much larger share of community funding obligations and contributed to significant disinvestment from K-12 schools, higher education, and other priorities;[b] pushed local governments to rely excessively on fines, fees, and other regressive revenue sources; and undermined communities' ability to meet basic needs and fund investments for the future.[c]

Advocates and their allies have worked in recent years to advance reforms that would loosen some of Proposition 13's restrictions. Most notably, a 2020 ballot initiative, which voters narrowly rejected, would have required commercial and industrial properties to be taxed based on their current market value rather than their purchase price (while keeping residential property taxation untouched). The measure would have raised an estimated $6.5 billion to $11.5 billion annually for K-12 schools and community colleges, counties, cities, and special districts.[d]

a California Legislative Analyst's Office, "A Look at Voter-Approval Requirements," March 20, 2014, https://lao.ca.gov/reports/2014/finance/local-taxes/voter-approval-032014.aspx.
b For example, until 1978 property taxes furnished about two-thirds of California's K-14 education's revenues. Proposition 13 caused a nearly exact flip: the state's share of funding for elementary and secondary schools and community colleges nearly doubled from 36 percent in 1977-78 to 65 percent in 1979-80. California Budget Project, "Proposition 13: Its Impact on California And Implications," April 1997, https://calbudgetcenter.org/wp-content/uploads/2018/09/Issue-Brief_Proposition-13-Its-Impact-on-California-and-Implications_04.1997.pdf.
c *Ibid*.
d Dylan Grundman O'Neill, "Putting California Proposition 15 in Context," Institute on Taxation and Economic Policy, October 8, 2020, https://itep.org/putting-california-proposition-15-in-context/ and Jonathan Kaplan *et al.*, "Understanding Inequitable Taxes on Commercial Properties and Prop. 15," California Budget & Policy Center, September 2020, https://calbudgetcenter.org/resources/understanding-inequitable-taxes-on-commercial-properties-and-prop-15/.

### General Revenue and Expenditure Restrictions

Though not as common as property tax limits, several states have adopted policies that limit localities' ability to tax and spend more broadly beyond that single revenue source. At least nine states — Arizona, California, Colorado, Iowa, Kansas, Minnesota, Nebraska, New Jersey, and Wisconsin — limit the amount of revenue localities are legally enabled either to collect or to spend. Like property tax constraints, general revenue restrictions hamstring local communities' ability to manage their tax policy to meet their own unique needs. Some state examples include:

- **Arizona** adopted a pair of restraints in the early 1980's, one that limits spending growth in cities and counties to annual increases in the cost of living and population growth and another that limits school district spending to adjustments based on changes in student population and cost of living. Cities and counties can override the first limit if they secure a two-thirds vote of their governing body along with majority approval from local voters. The limit on school expenditures, meanwhile, can be overridden by either a two-thirds vote of both houses of the state legislature *or* a majority of voters within the district.[34]

- **California** approved the so-called Gann Initiative in 1979, which imposes a constitutional spending cap on state and local governments, including cities, counties, and school districts. The initiative limits local revenues by restricting growth above 1978-79 spending levels to a formula increase based on changes in population and income growth.[35]
- **New Jersey** cities and counties are prohibited from increasing their final budget appropriations by more than 2.5 percent over the prior year or the cost-of-living adjustment, whichever is less (with some exceptions).[36]

Although there are fewer general revenue restrictions than property tax limits, the most extreme of them — TABOR, in Colorado — presents one the most harmful tax policy models that other states could emulate (and as many have considered). (See box, "TABOR and Other Measures Impose Harmful Local Limitations in Colorado.")

The full TABOR model, while only present today in Colorado, has since the 1990's been routinely advanced by anti-government forces seeking to restrict state and local policymakers' ability to make their own tax and spending choices. Since 2004, proponents have promoted TABORs in at least 29 states. In five states — Florida, Maine, Nebraska, Oregon, and Washington — these proposals reached the ballot between 2006 and 2012 but were rejected by voters.[37] Similar new threats continue to crop up, such as in Pennsylvania in 2021 and 2022, where lawmakers seriously considered a TABOR constitutional amendment before choosing not to advance it to the ballot.[38]

[34] Lincoln Institute of Land Policy and George Washington Institute of Public Policy, "Significant Features of the Property Tax," accessed December 2, 2022, https://www.lincolninst.edu/tax-limit/local-expenditure-cap-arizona-2020.

[35] "Q&A: How the Gann Limit Threatens Ongoing Investments for Californians," California Budget Center, January 2022, https://calbudgetcenter.org/resources/qa-why-hitting-gann-limit-threatens-ongoing-investments-in-californians/

[36] Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

[37] "Policy Basics: Taxpayer Bill of Rights (TABOR)," CBPP, November 5, 2019, https://www.cbpp.org/research/state-budget-and-tax/taxpayer-bill-of-rights-tabor

[38] Marc Stier, "The Trouble with TABOR," Keystone Research Center and Pennsylvania Budget and Policy Center, March 22, 2021, https://krc-pbpc.org/research_publication/the-problem-with-tabor/

## TABOR and Other Measures Impose Harmful Local Limitations in Colorado

An interlocking set of tax restrictions approved by Colorado voters has significantly weakened local governments' ability to raise and invest sufficient revenue.

The most widely known, the Taxpayer Bill of Rights (TABOR), imposes harsh tax and spending limits on *both* state and local policymakers. Since voters approved its addition to the state constitution in 1992, TABOR has cost the state billions in tax revenue and led to steep funding reductions for public needs.[a]

TABOR also severely restricts local governments. Each year, cities may only retain tax and fee revenues equal to the previous year's revenue plus an increase to reflect inflation and net new construction of real property. (For example, if inflation was 1 percent and local new construction increased 2 percent, municipal revenues could rise by 3 percent.) Any revenue collected over that amount must be refunded to taxpayers, unless voters approve an exception.[b] Because of these stringent limitations to local budgets, many municipalities, through ballot measures, have voted to "debruce" their budgets from TABOR restrictions. Debrucing refers to TABOR's author, Doug Bruce, and allows local governments to retain all revenue collected instead of returning it to taxpayers. Out of Colorado's 271 municipalities, 230 have debruced.[c]

Earlier, in 1982, Colorado voters adopted a restriction specifically targeting local property taxes known as the Gallagher Amendment.[d] Under Gallagher, total home values could not exceed 45 percent of the state property tax base; owners of non-residential property had to contribute the rest. This meant that if home values rose faster than businesses' property values, homeowners' tax rates would drop automatically to maintain that specified split. Over time, this cut the average residential assessment rate from 21 percent of a home's value when Gallagher was enacted to 7 percent when it was repealed in 2020.[e]

Together, the TABOR and Gallagher limits led to considerable underinvestment over time in schools and other local services, such as by forcing many rural and high-poverty school districts to resort to a four-day school week.[f] They also sharply distorted how local property taxes are applied across different communities and sets of taxpayers; as a 2015 report found, about 80 percent of Colorado taxpayers actually wound up paying *higher* property taxes after TABOR's enactment, with the remaining 20 percent often seeing outsized tax windfalls.[g]

a For example, even as Colorado's population has grown, TABOR's rigid spending limits and voter requirement to raise state-level taxes has caused investment in vital services to stagnate or plummet. The state fell from 35th to 49th in the nation in K-12 spending as a percentage of personal income between 1992 and 2001, while its support for colleges and universities (as a share of personal income) had declined from 35th in 1992 to 48th by 2008. CBPP, "Policy Basics: Taxpayer Bill of Rights (Tabor)," November 5, 2019, https://www.cbpp.org/research/state-budget-and-tax/taxpayer-bill-of-rights-tabor.

b Nicole DuPuis *et al*., "City Rights in an Era of Preemption: A State-by-State Analysis," National League of Cities, updated February 2018, p. 22, https://www.nlc.org/resource/city-rights-in-an-era-of-preemption-a-state-by-state-analysis/.

c Denver Post, "Get Bruce out of our budget — debruce Colorado this fall for the good of our state," August 19, 2019, https://www.denverpost.com/2019/08/19/guest-commentary-get-bruce-out-of-our-budget-debruce-colorado-this-fall-for-the-good-of-our-state/.

d Andrew Kenney, "Colorado Voters Repeal Gallagher Restraint On Residential Property Taxes," Colorado Public Radio, November 3, 2020, https://www.cpr.org/2020/11/03/colorado-election-results-repeal-gallagher-amendment-b/.

e Brian Eason, "What you need to know about TABOR, Gallagher, Amendment 23 and the hidden forces that constrain spending in Colorado," *Colorado Sun*, February 1, 2019, https://coloradosun.com/2019/02/01/colorado-tabor-gallagher-amendment-23-explained/.

f Jake Fisher, "State Tax Limitations Inhibit Public School Funding And Educational Equity," Tax Policy Center, August 19, 2021, https://www.taxpolicycenter.org/taxvox/state-tax-limitations-inhibit-public-school-funding-and-educational-equity?.

g Phyllis Resnick, Charles Brown, and Deborah Godshall, "Measuring the Impacts of Tax and Expenditure Limits on Public School Finance," Lincoln Institute of Land Policy, August 2015, https://www.lincolninst.edu/publications/working-papers/measuring-impacts-tax-expenditure-limits-public-school-finance-colorado.

## Preemption of Specific Taxes and Fees

Most recently, local taxing authority has eroded further as policymakers in some states have moved to preempt specific local revenue sources or, in some cases, punish localities — and even local officials themselves — through the power of the purse. Such moves have often been reactionary in nature, with transitory state legislative majorities reversing policy decisions supported by local residents and enacted by their democratically elected officials. This development, part of a broader movement — widely known as "preemption" — imposes significant new barriers to community efforts to adopt tailored solutions to local problems.

Over the past 15 years, a number of states have barred localities from enacting policies their voters want, most sharply on economic and social issues like minimum wage, paid leave, gender rights, and affordable housing, but also in some cases on local revenue issues.[39] Most recently, since the onset of COVID-19, several states have also moved to limit localities' ability to respond to the public health crisis itself, such as by curtailing local emergency powers, worker health and safety protections, and the ability of local health departments to issue masking, distancing, and closing orders.[40] State preemption of local authority has significantly expanded since 2010, research shows, and has been largely concentrated in states under unified Republican control, most commonly those in the South.[41]

In some cases, state preemption efforts have included states wielding fiscal policy as a punitive weapon against social and economic action on the local level, such as by withholding state funds from jurisdictions in response to proactive reforms.[42] For example, Georgia and Texas approved proposals in 2020 and 2021, respectively, to block local government initiatives to reform police departments, revise police budgets, or increase oversight and accountability of law enforcement agencies.[43] In at least nine other states, policymakers have taken a similar approach by using the

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[39] For example, 25 states preempt local minimum wage increases, and at least 23 prohibit localities from enacting paid sick and/or paid family leave policies. Meanwhile, 31 states prohibit localities from enacting rent control and ten states preempt localities from enacting inclusionary zoning requirements (which create affordable housing opportunities in areas where real estate is increasing in value). See Economic Policy Institute, "Workers' rights preemption in the U.S.," August 2019, https://www.epi.org/preemption-map/ and "State Preemption of Local Equitable Housing Policies: Equitable Housing Map," Local Solutions Support Center, http://www.supportdemocracy.org/equitablehousing/.

[40] For example, in 2021, at least 26 states pushed through laws that weakened the authority of public health departments, at least 17 states passed laws that banned COVID-19 vaccine mandates or made it easier to avoid vaccine requirements, and at least nine states passed new laws that ban or limit mask mandates. "Preemption of Public Health Authority," Local Solutions Support Center, March 28, 2022, https://www.supportdemocracy.org/issuespecific-preemption-guides/preemption-of-public-health-authority.

[41] Hunter Blair *et al.*, "Preempting progress," Economic Policy Institute, September 30, 2020, https://www.epi.org/publication/preemption-in-the-south/.

[42] Erin Scharff, "Preemption and Fiscal Authority," 45 Fordham Urb. L.J. 1270 (2019), https://ir.lawnet.fordham.edu/ulj/vol45/iss5/4.

[43] Ross Williams, "GOP bill would ban defunding police in wave of reaction to 2020 protests," Georgia Recorder, February 22, 2021, https://georgiarecorder.com/2021/02/22/gop-bill-would-ban-defunding-police-in-wave-of-reaction-to-2020-protests/; KUT: Austin's NPR Station, "Abbott Signs Into Law Bill Penalizing Texas Cities That Cut Police Funding," June 1, 2021, https://www.kut.org/crime-justice/2021-05-28/bill-penalizing-texas-cities-that-cut-funding-for-police-heads-to-governors-desk.

power of the purse to punish local governments or educational institutions that have enacted policies protecting or providing economic opportunities to immigrants without documented status.[44]

While focused most heavily on social and economic policies, recent state preemption measures also include some new limits on local revenue-raising. Most commonly, states are preempting localities from adopting new revenue sources, such as levies on sugary beverages and ride-sharing services. For example, Arizona, California, Michigan, and Washington now preempt with certain exceptions localities from enacting "soda taxes" on sugar-sweetened beverages,[45] while at least 18 states prohibit localities from enacting any local fees on single-use plastics,[46] and at least five states (Florida, Montana, Texas, Virginia, and Washington) have limited localities' ability to place taxes and fees on ride-sharing services such as Uber and Lyft.[47]

Other recent preemption efforts have limited other taxes and fees employed by local governments, including real estate transfer taxes (Oregon[48]); local levies on home-sharing services such as Airbnb (Arizona, Indiana, and Iowa[49]); and local income taxes (Alabama and Arkansas[50]). Of special note: after Montgomery, Alabama tried to implement a 1 percent local occupational tax (a payroll tax levied on employees who work in the city) in 2020, the state legislature nullified the measure and required all future local income tax increases statewide to gain state approval prior to enactment.[51] (See box, "Alabama's Income Tax Preemption Runs Counter to Racial Justice, Local Democracy.")

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[44] Mark A. Hall *et al.*, "State Preemption of Local Immigration "Sanctuary" Policies: Legal Considerations," *American Journal of Public Health*, January 13, 2021, https://ajph.aphapublications.org/doi/10.2105/AJPH.2020.306018.

[45] Eric Crosbie *et al.*, "State Preemption to Prevent Local Taxation of Sugar-Sweetened Beverages," American Medical Association, March 1, 2019, pp. 291-292, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7083242/. See also: Eric Crosbie *et al.*, "State Preemption: An Emerging Threat to Local Sugar-Sweetened Beverage Taxation," *American Journal of Public Health*, April 1, 2021, pp. 677-686, https://doi.org/10.2105/AJPH.2020.306062.

[46] National Conference of State Legislatures (NCSL), "State Plastic Bag Legislation," February 8, 2021, https://www.ncsl.org/research/environment-and-natural-resources/plastic-bag-legislation.aspx. Montana subsequently enacted legislation to preempt bans and fees on single-use plastics later in 2021.

[47] Rebecca Smith *et al.*, "Uber State Interference: How TNC's Buy, Bully, and Bamboozle Their Way to Deregulation," National Employment Law Project, January 18, 2021, pp. 4-27, https://www.nelp.org/publication/uber-state-interference/.

[48] Oregon amended its constitution to ban local governments from charging transfer taxes, even though state law already banned real estate transfer taxes. The amendment also limits document recording fees, another way cities and localities raise housing revenue. Because of this, Portland's recording fee is just $45 ($20 of which is put toward affordable housing), while other jurisdictions charge buyers hundreds of dollars for the service. Shelby King, "A Preemptive Strike: State Laws are Stymieing Local Efforts to Fund Affordable Housing," Portland Mercury, August 12, 2015, https://www.portlandmercury.com/portland/a-preemptive-strike/Content?oid=16246531.

[49] Arizona and Indiana cap the fee localities can charge for a home-sharing permit, and Iowa prevents them from levying one at all. See "Regulation of Short-Term Rentals," Local Solution Support Center, https://www.supportdemocracy.org/equitablehousing/#id.

[50] "Arkansas Prohibits Local Governments From Enacting Income Taxes," Bloomberg Tax, February 27 2023, https://news.bloombergtax.com/daily-tax-report-state/arkansas-prohibits-local-governments-from-enacting-income-taxes.

[51] AL.com, "Gov. Kay Ivey signs bill blocking Montgomery occupational tax," March 3, 2020, https://www.al.com/news/2020/03/gov-kay-ivey-signs-bill-blocking-montgomery-occupational-tax.html

A detailed accounting of recent state preemption on revenue sources is included in Appendix 4.

### Alabama's Income Tax Preemption Runs Counter to Racial Justice, Local Democracy

In February 2020, Montgomery, Alabama established an occupational tax of 1 percent, aimed at boosting funding for local services, along with hiring additional public workers and raising their pay. In anticipation of the tax passing, state lawmakers approved a measure to strictly curtail the long-standing ability of *all* Alabama cities to levy local income taxes.

The law left intact occupational taxes that were already in place in more than 20 Alabama cities prior to the law, but it nullified the Montgomery measure. Going forward, cities must now obtain permission from state legislators before raising previously established occupational taxes, although they can cut the taxes without similar permission. Alabama's governor acknowledged through a spokeswoman that there was a sound policy rationale for Montgomery to seek the new tax, but said she was choosing to side with suburban commuters who benefit from city services but didn't want to pay the tax.[a]

The Montgomery incident provides a clear example of one of preemption's noteworthy trends: a predominantly white legislature overriding the democratic wishes of a racially diverse local community. The Alabama legislature is 75 percent white, whereas Montgomery's population is mostly split between a Black majority (59 percent) and a large white minority (33 percent).[b] Further, Montgomery's city council at the time of the measure included four Black members and five white members.

Beyond overriding a diverse, majority-Black community's democratic authority to govern, the preemption measure also blocked an important new source of revenue for local investments that would have provided a targeted benefit to people who need it most, including the city's communities of color. The additional revenue from the Montgomery payroll tax was intended to increase salaries for public employees, which in Alabama — as in many communities nationwide — disproportionately include Black people and women.[c] The new income tax revenue would have also helped fuel new investments in education, infrastructure, and other public programs — investments that research shows are linked to richer economic opportunities.[d]

a AL.com, "Gov. Kay Ivey signs bill blocking Montgomery occupational tax," March 3, 2020, https://www.al.com/news/2020/03/gov-kay-ivey-signs-bill-blocking-montgomery-occupational-tax.html
b https://www.census.gov/quickfacts/montgomerycountyalabama
c In Alabama, women account for nearly 3 in 5 state and local government employees (compared to less than half of the private-sector workforce). Black workers are also somewhat overrepresented (26.9 percent of the state and local government workforce compared with 25.8 percent of the private-sector workforce) as are women of color (19.7 percent compared with 17.1 percent). Hunter Blair *et al*., "Preempting progress," Economic Policy Institute, September 30, 2020, https://www.epi.org/publication/preemption-in-the-south/.
d See https://www.cbpp.org/research/state-budget-and-tax/raising-state-income-tax-rates-at-the-top-a-sensible-way-to-fund-key and https://www.cbpp.org/research/state-budget-and-tax/tapping-more-peoples-capacity-to-innovate-can-help-states-thrive

## Tax Limits Undermine Investment, Incentivize More Regressive Tax Measures

Together, the complex web of state tax limits imposed on localities over the course of U.S. history has weakened communities' democratic ability to meet their own needs. The often older and more reasonable underlying guardrails that govern local authority inherently limit localities' ability to raise adequate revenues for investments in schools, housing, and other services their constituents want, *and* have over time made local tax systems more reliant on regressive forms of revenue, including user charges and criminal legal fines and fees. These effects are compounded by the set of stricter (typically newer) forms of state preemption, such as tight property tax restrictions, revenue caps, and outright bans on certain tax types, which have further tightened those screws.

### State Constraints on Local Taxation Harm Services, Dampen Investment

One straightforward effect of states' array of limits on local tax systems is that they constrain localities' ability to raise sufficient revenues for meeting the people's needs, be they quality schools, attractive amenities like parks and libraries, vital services including health access and social supports, or to invest in their own future. New, strict limits can lead to immediate harm in the form of budget cuts, such as occurred widely in California after Proposition 13. And over time, the harm imposed by strict state revenue limits compounds: each year a locality is prevented from adequately investing in young people, or is blocked from collecting the revenues needed for transportation maintenance or park upkeep, is a year's worth of investment in its own success it doesn't get back. That accumulation of disinvestment can have generational effects in holding back the ability of people and communities to prosper.

The concept of state tax limits constraining local revenues is most clearly illustrated by the weakening of the property tax over the past half-century. Nationwide, property taxes dropped from 3.7 to 3 percent of personal income from 1977 to 2020, a decline that's been much steeper in states with long-standing limits. (See Figure 4). In California, for example, property taxes as a share of personal income were down to 2.7 percent in 2020 from 4.8 percent in 1978, when voters approved Proposition 13. While in Michigan, property tax revenues fell from 4.3 percent of personal income in 1994 (when the stricter of its two limits was imposed) to only 2.6 percent by 2020.[52]

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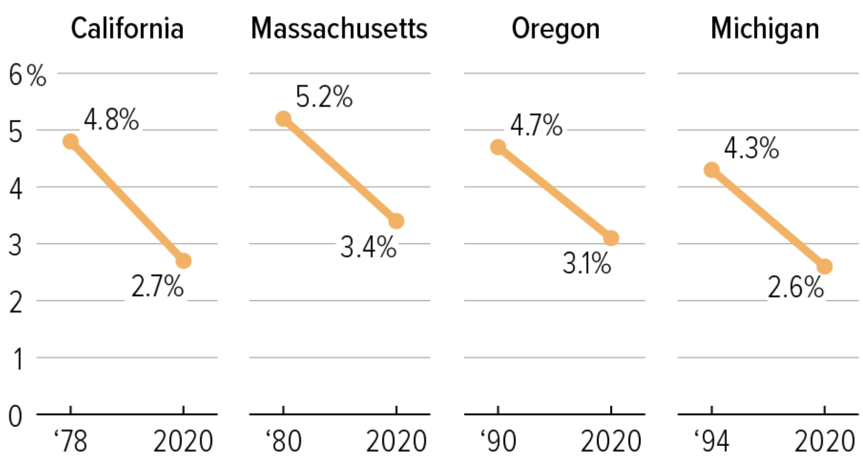
[52] CBPP analysis of U.S. Census Bureau Annual Survey of State and Local Government Finances, 1977-2020 (compiled by the Urban Institute), https://state-local-finance-data.taxpolicycenter.org.

FIGURE 4

## State Limits Have Weakened Local Property Taxes

Local property tax revenue as a share of personal income




Note: The beginning years for each state are the year the state's property tax limit was enacted.

Source: CBPP analysis of US Census Bureau Annual Survey of State and Local Government Finances

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While falling or stagnant locally raised revenues would not, necessarily, be a bad thing if those dollars were replaced by adequate revenue from the federal government or their respective states, that has not been the case. Instead, state and federal aid has fallen over the past few decades, meaning localities are often forced to cover a larger share of their needs (often alongside rising costs and tightening state constraints). (See Figure 5.)

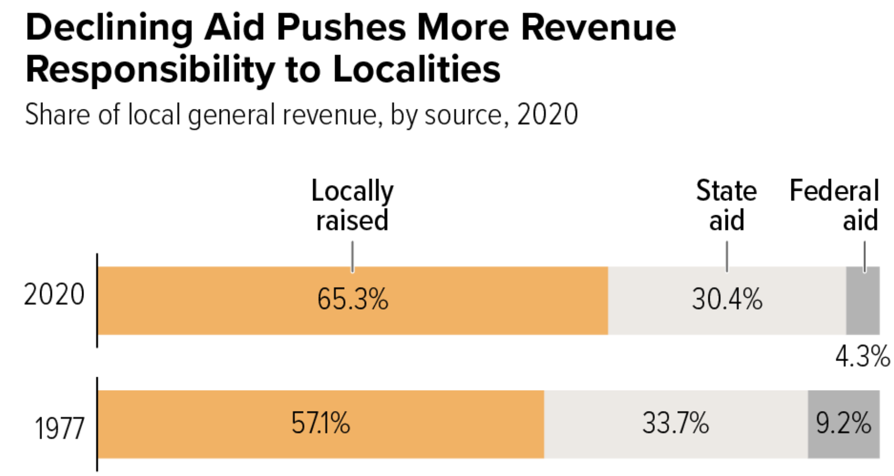
Specifically, federal aid to local governments fell from 9 percent of local general revenues in 1977 to 3.8 percent in 2019, before rising slightly to 4.3 percent in 2020 due to federal COVID-19 relief. (Local budgets are also vulnerable to shifts in political dynamics and policy approaches at the national level, such as Trump-era efforts to roll back many federal grants and complicate state and local revenue efforts.[53]) State aid to localities has also fallen modestly, from 34 percent of local general revenue to 30 percent between 1977 and 2020.[54] In some states, this decline reflects costly

[53] For example, the Trump Administration proposed (but did not implement) massive reductions in several federal programs crucial to local governments, such as Community Development Block Grants, "TIGER" transportation grants, Social Service Block Grants, and multiple affording housing and economic development efforts. And some provisions of the 2017 tax law, including the cap on state and local tax deductions, complicate localities' ability to raise revenue or meet spending obligations.

[54] The share of state and federal aid varies by state, of course, sometimes substantially; federal aid as a share of localities' general revenues in 2020 ranged from a low of 1.4 percent in Indiana to 6.7 percent in Montana, while state aid varies considerably: from only 6.7 percent in Hawai'i to 70.7 percent in Vermont (with Arkansas, at 50.3 percent, a distant second).

state income tax cuts that left the state without enough revenue to sustain previous support for localities.[55]

FIGURE 5




Source: CBPP analysis of U.S. Census Bureau Annual Survey of State and Local Government Finances

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The combination of falling state and federal aid and increasing state restrictiveness on local revenue is especially harmful given that many communities are *also* facing rising costs for meeting public needs. For example, localities are on the front lines of the rapidly accelerating climate crisis, serving as first responders and typically the first source of money (before state and federal aid kicks in) to address events such as hurricanes and wildfires, which have increased markedly in recent years.[56] In many localities, there are also increased costs from an expansion of state mandates, such as unfunded requirements relating to local courts and criminal justice systems.[57]

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55 For example, a series of income tax cuts in Massachusetts between 1998 and 2002 led to a 44 percent reduction in unrestricted state aid to localities by 2015, after adjusting for inflation. And steep income tax cuts in Kansas made it difficult to restore recession-era cuts in aid to localities, which fell by 14 percent between 2009 and 2017 after adjusting for inflation. See Kurt Wise and Marie-Frances Rivera, "Income Tax Cuts and the Budget Deficit in Massachusetts," Massachusetts Budget and Policy Center, January 21, 2015, http://massbudget.org/report_window.php?loc=tax_cuts_factsheet.html, and Kansas Center for Economic Growth, "Aid to Locals Report: 2017 Update," September 2017, https://realprosperityks.com/wp-content/uploads/2013/02/KCEG_AidToLocalsReport_v7.pdf.

56 Kat So and Sally Hardin, "Extreme Weather Cost U.S. Taxpayers $99 Billion Last Year, and It Is Getting Worse," Center for American Progress, September 1, 2021, https://www.americanprogress.org/article/extreme-weather-cost-u-s-taxpayers-99-billion-last-year-getting-worse/. For example, Colorado suffered an estimated $1.8 billion in statewide costs of wildfires to property and agricultural between 2000 and 2020, compared to negligible costs (due to far fewer fires) before that. "Colorado 2050: Why We Need Climate Resiliency to Protect Our Communities And Way Of Life," Colorado Fiscal Project, August 2021, https://www.coloradofiscal.org/colorado-2050-climate-change/library/reports/.

57 A 2016 report from the National Association of Counties (NaCo) found that nearly half (45 percent) of state associations of counties reported counties receiving reduced state funding and facing more state mandates over the prior ten years. Joel Griffith, Jonathan Harris & Dr. Emilia Istrate, "Doing More With Less, State Revenue Limitations and Mandates on County Finances," NaCo, 2016, https://www.naco.org/resources/doing-more-less-state-revenue-limitations-and-mandates-county-finances.

The COVID-19 pandemic also imposed significant costs on local governments, such as to safely reopen schools, make up for unfinished learning, and address a range of costly public health needs — costs that in some cases, such as hospitals, could remain elevated for some time.[58] And while the American Rescue Plan of March 2021 provided cities and counties with $130 billion in Fiscal Recovery Funds to address increased costs, public employee layoffs, and in some cases service cuts stemming from the pandemic and ensuing recession, those dollars are temporary and must be obligated by the end of 2024 and spent by the end of 2026.

Lastly, state tax limits *also* create an arbitrarily low ceiling for the amount of revenues localities could hypothetically raise with more expansive (yet still sensibly regulated) taxing powers.

One illustrative scenario is to consider if states more broadly enabled local governments to tax personal income, either by revising their underlying home rule statutes or (more likely) creating new statewide frameworks for doing so, such as Maryland has done. As a result, local income tax revenues in Maryland equate to 1.5 percent of state residents' personal income. In an alternative 2020 where *all* states taxed personal income to the degree Maryland does, localities nationwide would have collected an estimated $270 billion more in revenue than the $1.25 trillion they did, a 22 percent increase. Dollars on that scale could open up significant opportunities for local officials to more vigorously support schools, health services, and a range of other policies that help people and communities thrive.

### State Limits Make Local Tax Systems More Regressive, Less Equitable

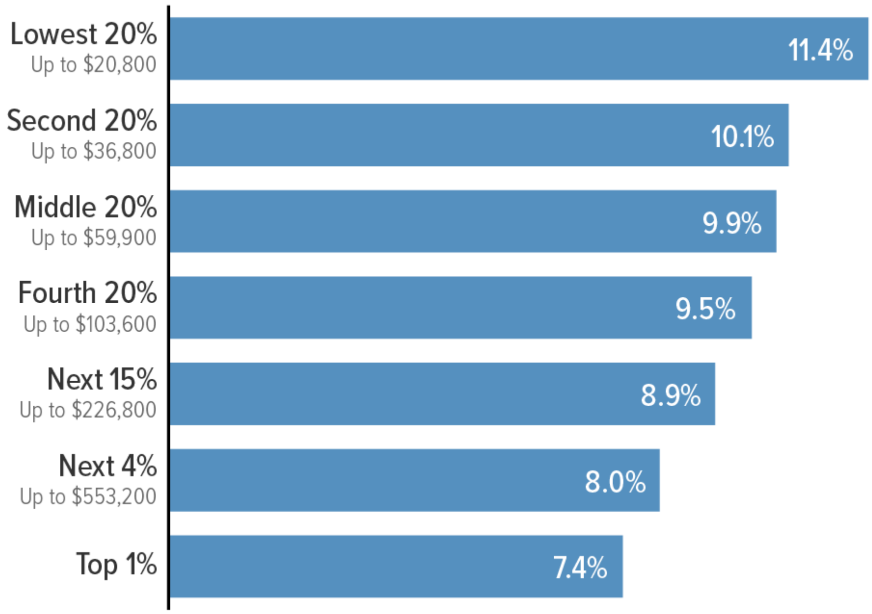
With their available tax tools constrained — and with state and federal aid generally falling as costs rise — localities today are often pressured into a difficult choice: either fail to respond to pressing local challenges and meet their constituents' needs, or turn toward more regressive and inequitable revenue sources, including sales taxes, user charges, and criminal legal fees and fines. Overall, state and local tax structures are already regressive. (See Figure 6.) Shifting further in this direction carries damaging consequences, putting more of the cost for government services on those least able to pay and setting back efforts to achieve racial justice.

[58] Costs have been especially acute for pressing public health needs, including responding to spiking hospital caseloads after the onset of the pandemic and for additional, ongoing services as the crisis wore on. Many of these costs will likely continue. For example, one recent report estimated that state and local health departments will need to add as many as 80,000 full-time employees, a roughly 80 percent increase, to adequately deliver public health services in the wake of the pandemic. RouteFifty, "Public Health Departments Need 80,000 New Employees. But That's Not Enough for Another Pandemic," October 2021, https://www.route-fifty.com/health-human-services/2021/10/80000-public-health-employees-needed/186077/.

FIGURE 6

## Lowest-Income Households Pay Highest Share of State and Local Taxes

Total state and local taxes that non-elderly residents paid as a share of their income in 2018




Source: Institute on Taxation and Economic Policy, "Who Pays: A Distributional Analysis of the Tax Systems in All 50 States," 6th ed., October 2018, https://itep.org/whopays/

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State limitations can make local tax systems less fair in a few ways, for one by pushing them to over-rely on "user charges," a Census spending category that includes a broad range of local levies such as household payments for specific services including water, sewerage, parks, trash pickup, and school activities as well as fees paid by local institutions like airports and hospitals. Such charges are a relatively regressive source of revenue, compared to property or income taxes, because they are typically levied as a flat dollar amount, rather than varying with income. That means they fall hardest on people with low incomes; for instance, a $100 fee to participate in a school sports league creates a much higher barrier for children from low-income families, and local fees for sewer and trash pickup are felt more sharply by older adults living on fixed incomes.

Charges have become a much larger share of local budgets in recent decades, rising from 19 percent of local own-source revenues in 1977 to 27 percent in 2020. Property taxes, meanwhile, fell markedly over that span, from 59 to 46 percent of local own-source revenues.[59] (See Figure 7.) In addition to the pressure created from declining property tax revenues, another driving force behind

[59] Iris J. Lav and Michael Leachman, "State Limits on Property Taxes Hamstring Local Services and Should Be Relaxed or Repealed," CBPP, July 18, 2018, https://www.cbpp.org/research/state-budget-and-tax/state-limits-on-property-taxes-hamstring-local-services-and-should-be.

the rise of fees is that state constitutions and statutes generally give local governments much greater authority to impose new charges (as opposed to more broadly based taxes) without additional authorization from state legislatures.[60]

A second, more deeply problematic, way that state tax limits push local tax systems in a more regressive direction is by encouraging them to rely more on fees and fines collected through the criminal legal system, such as parking and speeding tickets, court-imposed fees, and criminal penalties. Although a relatively small share of local revenues overall,[61] these fees and fines impose an undue burden on people directly affected, who disproportionately have low incomes or are from historically excluded communities. Research is clear that the widespread use of criminal legal fees and fines can cause lasting harm, such as by trapping low-income people in a cycle of debt and creating sizable obstacles to stable housing and employment.[62] They are also deeply rooted in a racist history and are especially harmful for Black people and other communities of color, who due to structural racism and long-standing patterns of discrimination, are likelier to be caught up in a discriminatory criminal legal system that often leaves people jailed simply because they cannot pay.[63]

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[60] Erin Adele Scharff, "Powerful Cities?: Limits on Municipal Taxing Authority and What to Do About Them," *New York University Law Review,* Vol. 91, No. 2, May 2016, p. 304, https://www.nyulawreview.org/issues/volume-91-number-2/powerful-cities-limits-on-municipal-taxing-authority-and-what-to-do-about-them/.

[61] In 2019, state and local governments raised $14.8 billion from fines and fees, less than 0.5 percent of their combined general revenues. States raised $5.6 billion, and localities raised $9.2 billion. See Aravind Boddupalli and Kim S. Rueben, "States Can Help Reduce the Burdens of Harmful Fines and Fees. Here's How," Tax Policy Center, September 27, 2022, https://www.taxpolicycenter.org/taxvox/states-can-help-reduce-burdens-harmful-fines-and-fees-heres-how.

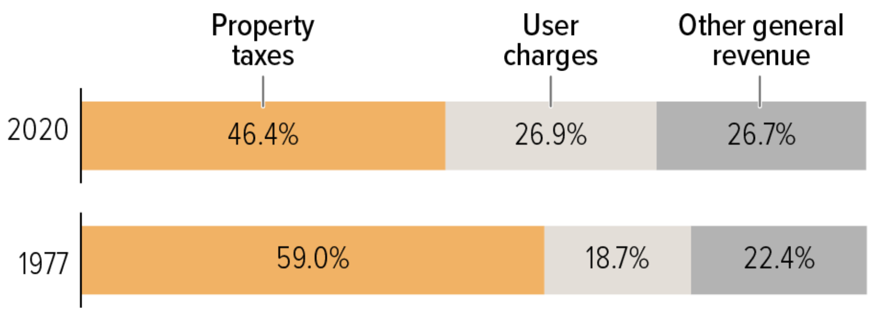
[62] For further reading, see Matthew Menendez *et al.*, "The Steep Costs of Criminal Justice Fees and Fines," Brennan Center for Justice at New York University School of Law, November 21, 2019, https://www.brennancenter.org/sites/default/files/2019-11/2019_10_Fees%26Fines_Final5.pdf; Joseph Shapiro, "As Court Fees Rise, The Poor Are Paying The Price," NPR, May 19, 2014, https://www.npr.org/2014/05/19/312158516/increasing-court-fees-punish-the-poor; and Sarah Calame and Aravind Boddupalli, "Fines and Forfeitures and Racial Disparities," Tax Policy Center, August 14, 2020, https://www.taxpolicycenter.org/taxvox/fines-and-forfeitures-and-racial-disparities.

[63] Cortney Sanders and Michael Leachman, "Step One to an Antiracist State Revenue Policy: Eliminate Criminal Justice Fees and Reform Fines," CBPP, September 17, 2021, https://www.cbpp.org/research/state-budget-and-tax/step-one-to-an-antiracist-state-revenue-policy-eliminate-criminal .

FIGURE 7

## Charges Have Risen as a Share of Local Revenue

Property taxes, user charges, and other sources as share of general revenues raised locally, 2020




Source: CBPP analysis of US Census Bureau Annual Survey of State and Local Government Finances

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Yet, evidence indicates that the use of criminal legal fines and fees has spread significantly in recent decades. For example, between 1986 and 2004, the share of those incarcerated who were also fined rose from 12 to 37 percent, while the number of states charging fees for probation and parole supervision rose from 26 to 44 percent between 1990 and 2014.[64] After the Great Recession hit in 2007, nearly every state increased some combination of criminal and civil fees.[65]

The reliance on fees and fines also appears to have grown especially acute in certain types of communities over others, namely rural areas, smaller towns, and places that economically struggle. As a 2019 analysis from *Governing* magazine found, criminal fines and forfeitures accounted for more than 10 percent of general fund revenues in nearly 600 jurisdictions (and more than 20 percent in at least 284 of those), with particular concentration in Arkansas, Georgia, Louisiana, New York, Oklahoma, and Texas.[66]

## Easing State Tax Limits Would Be a Win for Equity, Democracy, and Prosperity

To better meet their residents' needs and adequately fund local solutions, states should embrace a more democratic, community-minded approach to local taxing policy. By revisiting and, in many cases, loosening or repealing state restrictions on it, state policymakers can unlock an additional set of tools for expanding economic opportunity, advancing racial and economic equity, enhancing communities' quality of life, and increasing long-term prosperity among states.

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[64] Council of Economic Advisers Issue Brief, "Fines, Fees, and Bail: Payments in the Criminal Justice System that Disproportionately Impact the Poor," December 2015, https://nicic.gov/fines-fees-and-bail-payments-criminal-justice-system-disproportionately-impact-poor.

[65] NPR, "State-By-State Court Fees," May 19, 2014, https://www.npr.org/2014/05/19/312455680/state-by-state-court-fees.

[66] Mike Maciag, "Addicted to Fines," *Governing*, August 19, 2019, https://www.governing.com/archive/gov-addicted-to-fines.html.

With more expansive authority, especially authority to enact measures such as taxes on personal income or high-value properties, localities could collect additional revenue for pathbreaking improvements in schools, housing, anti-poverty programs, and other services that (especially in the aftermath of the COVID-19 pandemic and recession) are needed now more than ever. Repealing or reforming harmful or unnecessary limits could also help localities to, in time, diversify their revenue systems away from more regressive sources such as fees and fines — taking a step forward for racial justice and making it easier for workers and families to meet their needs. Some strategies that states should consider include:

- **Allowing communities to tax specific sources of revenue that are within their existing policymaking authority.** States should repeal existing statutes, and avoid enacting new ones, that target local revenue policies on things like plastic bags, sugary beverages, and ride-sharing services (which appear to fall within localities' existing domain of authority), simply because those local policies may conflict with the policy preferences of temporary state governing majorities. Although reasonable policy arguments exist both for and against these specific sources of revenue — for example, the fact that local soda taxes can both advance public health goals like reducing obesity *and* fall disproportionately on people least able to pay, including many people of color — communities should be empowered to weigh relevant pros and cons based on their own needs and democratic wishes.[67]
- **Rolling back, reforming, and avoiding enactment of new arbitrary limitations on local property taxes and other revenue-raising tools.** While some state regulation of the size and shape of local revenue systems is sensible, many of the policies enacted in the past few decades appear less about sound fiscal policy than simply undermining funding for public services generally.

  Reforming or (in egregious cases) eliminating these restrictions could unlock significant revenues. For example, the 2020 proposal to revise California's Proposition 13 would have raised up to $11.5 billion annually statewide. And dismantling TABOR could put Colorado on the road to reversing decades of disinvestment in its people and communities.[68] Even incremental improvements to property tax restrictions, such as reforms to help local revenues better recover from recessions, could help localities maintain more predictable, stable revenue streams.[69]
- **Exploring ways to give localities a broader, more diverse suite of revenue-raising tools, with an eye toward equity and ability to pay**. States could also consider authorizing additional local revenue sources as a way to diversify local revenue streams and to make those sources more equitable and based on ability to pay. The main way to do this would be adding or improving statewide frameworks that enable localities to tax personal income or, in some cases, property and personal consumption.

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[67] Urban Institute, "Soda Taxes," https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/soda-taxes.

[68] Carol Hedges, "TABOR at 25, Part II: A Limit on Colorado's Way of Life," Colorado Fiscal Institute, January 29, 2018, https://www.coloradofiscal.org/tabor-at-25-part-ii-a-limit-on-colorados-way-of-life/issues/.

[69] Katy Campillo *et al.*, "Local Tax Limitations Can Hamper Fiscal Stability of Cities and Counties," Pew, July 2021, https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/07/local-tax-limitations-can-hamper-fiscal-stability-of-cities-and-counties?

On income taxes, states could consider emulating the Maryland model of allowing counties (or other jurisdictions) to add-on local income taxes up to a certain level, administered in a standardized way statewide. Another option would be for more states to enable income taxes in certain specified jurisdictions, typically large cities, as Colorado, Delaware, Missouri, New Jersey, New York, and West Virginia have done. New local income taxes would, ideally, be authorized to include a set of graduated brackets on increasing levels of income, such as currently exists in New York City and as a 2021 reform now allows for in Maryland.[70]

On property taxes, in addition to the core strategy of easing existing limitations, states could explore additional options for unlocking new local revenues, such as potentially allowing property tax systems to apply higher tax rates to households and companies most able to pay; however, further research is needed about how each state's distinctive body of constitutional law may or may not limit more progressive property tax policies.

Lastly, the 13 states that do not allow for local sales taxes could consider doing so; while this particular reform raises important questions of tax fairness and equity (since like local fees and fines, sales taxes fall disproportionately on low-income people and communities of color), they hold potential to raise significant local revenues for vital investments. If pursued, states will need to pair new local-option sales tax authority with other state tax policies — such as targeted tax credits for workers and families — to help counteract these harmful effects.

- **Reexamining, over time, underlying legal rules that govern local fiscal power to gauge whether they still fit communities' modern needs.** State policymakers can examine their statutory and constitutional provisions regulating local fiscal power, to see whether potential revisions might better serve the public interest and honor our nation's democratic spirit. Such reform efforts would likely necessitate a period of study in consultation with experts with intricate knowledge of state-specific legal frameworks, followed in some cases by revisions to state constitutions, which often requires long-term efforts.

  Regardless, efforts to better understand and potentially reform underlying state guardrails on local fiscal policy could prove worthwhile. In some cases, this might include loosening state home rule frameworks to give localities somewhat broader authority to enact new tax policies without prior state approval, as the National League of Cities has proposed.[71] And in some states, especially Massachusetts, New Hampshire, Pennsylvania, and Washington, this could mean revising state uniformity clauses to permit a more targeted and expansive suite of local taxes targeted to households and companies most able to pay, namely graduated income taxes and property tax solutions more targeted to wealthy households and profitable corporations.

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[70] Vital Law, "S.5, Maryland—Personal Income Tax: Legislature Overrides Veto to Authorize County Income Tax on Bracket Basis, Increase Minimum County Tax Rate, (Jan 6, 2022)," https://www.vitallaw.com/news/maryland-personal-income-tax-legislature-overrides-veto-to-authorize-county-income-tax-on-bracket-basis-increase-minimum-county-tax-rate/std016303cfd84340402d8791ecb616faa0dc.

[71] National League of Cities, "New Principles of Home Rule for the 21st Century," 2020, https://www.nlc.org/resource/new-principles-of-home-rule/#.

## Appendix 1: Examples of State Home Rule and Local Taxing Provisions

State grants of home rule authority, and their limitations regarding tax policy, are embedded across state statutes and constitutions and vary considerably from state to state. Some examples include:

**Georgia:** A statutory system of home rule enacted in 1965 allows cities the power "to adopt clearly reasonable ordinances, resolutions, or regulations relating to its property, affairs, and local government for which no provision has been made by general law and which are not inconsistent with the Constitution or any [applicable] charter provision." Yet, the measure also forbids cities from enacting "any form of taxation beyond that authorized by [state] law or by the Constitution."[72]

**Maryland**: Maryland's constitution authorized home rule in Baltimore City and all counties in 1915, and a 1954 constitutional amendment extended it to other cities. Yet that same amendment also states: "No such municipal corporation shall levy any type of tax, license fee, franchise tax or fee… unless it shall receive the express authorization of the General Assembly for such purpose."[73]

**Massachusetts:** The Home Rule Amendment to Massachusetts's constitution, adopted in 1966, provides a particularly clear example of how states' gradual movement toward greater home rule powers and their general inclination to restrict tax policy plays out statutorily; that document reads "It is the intention of this article to reaffirm the customary and traditional liberties of the people with respect to the conduct of their local government, and to grant and confirm to the people of every city and town the right of self-government in local matters…. [But] nothing in this article shall be deemed to grant to any city or town the power to… levy, assess and collect taxes."[74]

**Nevada**: Long viewed as a Dillon's Rule state due to strict court interpretations of its limited constitutional home rule powers granted to cities, Nevada adopted a more comprehensive home rule system for counties in 2015. The legislation, however, explicitly states "Except as expressly authorized by statute, a board of county commissioners shall not… impose a tax."[75]

**Ohio**: A provision of Ohio's constitution dating to 1912 states that "Municipalities shall have authority to exercise all powers of local self-government and to adopt and enforce within their limits such local police, sanitary and other similar regulations, as are not in conflict with general laws." Presenting a noteworthy exception to the rule, Ohio court interpretations have held that while these powers do not name taxation specifically, they include the ability to impose an income tax.[76]

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72 "Summary of Home Rule in Georgia," Local Support Solutions Center, accessed December 21, 2022, https://bit.ly/3PJK8jC.

73 Constitution of Maryland, ARTICLE XI-E, accessed December 21, 2022, https://bit.ly/3BOtE3R.

74 Paul Diller, "Massachusetts: Constitutional and Statutory Provisions," Legal Effort to Address Preemption (LEAP) Project, May 2017, https://bit.ly/3GcsMcg.

75 Paul Diller, "Nevada: Constitutional and Statutory Provisions," Legal Effort to Address Preemption (LEAP) Project, May 2017, https://bit.ly/3YIYULy.

76 "Summary of Home Rule in Ohio," Local Support Solutions Center, accessed December 21, 2022, https://bit.ly/3v9BO3g.

## Appendix 2: Mix of Local Revenues Varies Across States

TABLE 1

### Share of combined state and local general revenue, by source, 2020

| State | State and Local General Revenue (billions) | Locally raised revenue (billions) | Raised locally | Raised by state | Federal aid |
|---|---|---|---|---|---|
| Alabama | $48.1 | $13.9 | 29% | 41% | 31% |
| Alaska | $12.4 | $3.3 | 27% | 35% | 38% |
| Arizona | $63.1 | $17.6 | 28% | 37% | 35% |
| Arkansas | $28.6 | $4.7 | 16% | 50% | 34% |
| California | $521.6 | $191.1 | 37% | 41% | 22% |
| Colorado | $62.0 | $27.2 | 44% | 36% | 20% |
| Connecticut | $46.2 | $13.4 | 29% | 49% | 22% |
| D.C. | $14.8 | $10.0 | 67% | N/A | 33% |
| Delaware | $13.1 | $1.9 | 15% | 52% | 33% |
| Florida | $186.6 | $81.6 | 44% | 34% | 22% |
| Georgia | $84.7 | $35.1 | 41% | 36% | 23% |
| Hawai’i | $19.5 | $4.2 | 21% | 58% | 21% |
| Idaho | $16.0 | $4.4 | 27% | 42% | 30% |
| Illinois | $136.5 | $50.9 | 37% | 41% | 22% |
| Indiana | $69.6 | $20.6 | 30% | 42% | 29% |
| Iowa | $40.5 | $11.6 | 29% | 49% | 22% |
| Kansas | $30.8 | $9.1 | 29% | 50% | 20% |
| Kentucky | $44.6 | $9.3 | 21% | 43% | 36% |
| Louisiana | $47.6 | $14.2 | 30% | 33% | 37% |
| Maine | $15.8 | $4.7 | 30% | 40% | 31% |
| Maryland | $71.2 | $23.3 | 33% | 43% | 24% |
| Massachusetts | $89.6 | $23.9 | 27% | 48% | 25% |
| Michigan | $97.3 | $26.4 | 27% | 44% | 29% |
| Minnesota | $67.1 | $19.4 | 29% | 48% | 23% |
| Mississippi | $30.0 | $8.0 | 27% | 38% | 36% |
| Missouri | $53.7 | $19.3 | 36% | 34% | 30% |
| Montana | $10.7 | $2.7 | 25% | 38% | 36% |
| Nebraska | $21.0 | $8.2 | 39% | 37% | 24% |
| Nevada | $26.7 | $9.4 | 35% | 41% | 23% |
| New Hampshire | $13.4 | $5.0 | 37% | 34% | 29% |
| New Jersey | $109.4 | $39.1 | 36% | 46% | 18% |
| New Mexico | $26.5 | $5.0 | 19% | 47% | 35% |
| New York | $336.5 | $140.0 | 42% | 35% | 24% |

TABLE 1

## Share of combined state and local general revenue, by source, 2020

| State | State and Local General Revenue (billions) | Locally raised revenue (billions) | Raised locally | Raised by state | Federal aid |
|---|---|---|---|---|---|
| North Carolina | $95.9 | $33.2 | 35% | 40% | 25% |
| North Dakota | $11.9 | $2.5 | 21% | 51% | 28% |
| Ohio | $119.3 | $40.0 | 34% | 39% | 27% |
| Oklahoma | $36.3 | $10.3 | 28% | 44% | 28% |
| Oregon | $51.4 | $14.8 | 29% | 44% | 28% |
| Pennsylvania | $143.2 | $43.2 | 30% | 41% | 29% |
| Rhode Island | $13.2 | $3.3 | 25% | 42% | 33% |
| South Carolina | $49.9 | $17.3 | 35% | 40% | 25% |
| South Dakota | $8.9 | $2.6 | 30% | 34% | 37% |
| Tennessee | $53.8 | $17.6 | 33% | 39% | 28% |
| Texas | $275.5 | $113.2 | 41% | 34% | 25% |
| Utah | $32.0 | $10.1 | 32% | 48% | 20% |
| Vermont | $9.0 | $1.1 | 12% | 49% | 39% |
| Virginia | $91.3 | $27.6 | 30% | 49% | 21% |
| Washington | $90.4 | $33.8 | 37% | 43% | 20% |
| West Virginia | $18.6 | $3.5 | 19% | 44% | 37% |
| Wisconsin | $58.4 | $16.4 | 28% | 49% | 23% |
| Wyoming | $10.0 | $3.1 | 31% | 29% | 40% |
| United States | $3,624.5 | $1,251.9 | 35% | 40% | 25% |

Source: CBPP analysis of U.S. Census Bureau Annual Survey of State and Local Government Finances

TABLE 2

## Share of local general own-source revenue, by state, 2020

| State | Property | Sales (General) | Income tax | Other taxes | Charges | Misc. general revenue |
|---|---|---|---|---|---|---|
| Alabama | 20% | 20% | 1% | 8% | 43% | 8% |
| Alaska | 46% | 7% | 0% | 6% | 28% | 12% |
| Arizona | 43% | 21% | 0% | 5% | 23% | 8% |
| Arkansas | 25% | 28% | 0% | 6% | 27% | 13% |
| California | 39% | 8% | 0% | 8% | 34% | 12% |
| Colorado | 42% | 20% | 0% | 4% | 25% | 10% |
| Connecticut | 88% | 0% | 0% | 1% | 8% | 3% |
| D.C. | 29% | 12% | 31% | 11% | 8% | 8% |
| Delaware | 54% | 0% | 3% | 8% | 25% | 9% |
| Florida | 41% | 5% | 0% | 9% | 33% | 13% |
| Georgia | 39% | 12% | 0% | 6% | 35% | 8% |
| Hawai'i | 54% | 8% | 0% | 14% | 20% | 5% |
| Idaho | 47% | 0% | 0% | 3% | 40% | 9% |
| Illinois | 57% | 6% | 0% | 9% | 20% | 8% |
| Indiana | 38% | 0% | 6% | 2% | 45% | 8% |
| Iowa | 50% | 4% | 1% | 3% | 35% | 7% |
| Kansas | 47% | 11% | 0% | 4% | 26% | 12% |
| Kentucky | 37% | 0% | 19% | 10% | 28% | 6% |
| Louisiana | 29% | 31% | 0% | 3% | 30% | 6% |
| Maine | 82% | 0% | 0% | 1% | 14% | 3% |
| Maryland | 43% | 0% | 27% | 8% | 16% | 6% |
| Massachusetts | 77% | 0% | 0% | 4% | 14% | 5% |
| Michigan | 52% | 0% | 2% | 2% | 33% | 10% |
| Minnesota | 48% | 2% | 0% | 3% | 34% | 12% |
| Mississippi | 43% | 0% | 0% | 3% | 48% | 6% |
| Missouri | 35% | 17% | 3% | 7% | 29% | 9% |
| Montana | 60% | 0% | 0% | 2% | 26% | 11% |
| Nebraska | 50% | 5% | 0% | 9% | 27% | 9% |
| Nevada | 34% | 9% | 0% | 15% | 28% | 14% |
| New Hampshire | 83% | 0% | 0% | 2% | 11% | 4% |
| New Jersey | 81% | 0% | 0% | 1% | 12% | 5% |
| New Mexico | 36% | 29% | 0% | 4% | 22% | 9% |
| New York | 45% | 13% | 15% | 4% | 16% | 7% |
| North Carolina | 34% | 10% | 0% | 3% | 45% | 8% |

TABLE 2

## Share of local general own-source revenue, by state, 2020

| State | Property | Sales (General) | Income tax | Other taxes | Charges | Misc. general revenue |
|---|---|---|---|---|---|---|
| North Dakota | 48% | 11% | 0% | 3% | 19% | 19% |
| Ohio | 43% | 6% | 16% | 2% | 22% | 11% |
| Oklahoma | 34% | 25% | 0% | 3% | 29% | 9% |
| Oregon | 50% | 0% | 1% | 13% | 27% | 10% |
| Pennsylvania | 49% | 2% | 15% | 6% | 20% | 7% |
| Rhode Island | 80% | 0% | 0% | 2% | 14% | 4% |
| South Carolina | 39% | 6% | 0% | 7% | 41% | 7% |
| South Dakota | 54% | 14% | 0% | 5% | 20% | 6% |
| Tennessee | 33% | 12% | 0% | 6% | 37% | 12% |
| Texas | 57% | 8% | 0% | 3% | 23% | 8% |
| Utah | 39% | 13% | 0% | 6% | 30% | 11% |
| Vermont | 64% | 2% | 0% | 2% | 23% | 9% |
| Virginia | 57% | 5% | 0% | 11% | 21% | 6% |
| Washington | 28% | 16% | 0% | 10% | 37% | 8% |
| West Virginia | 51% | 2% | 0% | 10% | 31% | 6% |
| Wisconsin | 61% | 3% | 0% | 3% | 25% | 9% |
| Wyoming | 31% | 3% | 0% | 3% | 54% | 9% |
| United States | 46% | 8% | 4% | 6% | 27% | 9% |

Notes: “Other taxes” includes license taxes, selective sales taxes (such as on tobacco and motor fuel), death and gift taxes, and small amounts of tax revenue classified as miscellaneous in Census data. Charges include fees local residents pay for various services such as water, sewerage, parks, and school activities, as well as levies on institutions such as airports and hospitals. Miscellaneous general revenue includes non-tax revenue from things including property sales, interest earnings, and fees, fines, and forfeitures within the criminal legal system.

Source: CBPP analysis of U.S. Census Bureau Annual Survey of State and Local Government Finances

# Appendix 3: Local Income and Sales Tax Options Vary Widely

## Few States Allow Localities to Tax Incomes

Local governments levy some type of tax on income in only 16 states, and in many of those, only one or a few jurisdictions can do so.[77] Local income taxes can take several forms: wage taxes, income taxes, payroll taxes, local services taxes, and occupational privilege taxes. Some are imposed as a percentage of salaries or wages, while others are stated as a percentage of federal or state tax, and others are flat amounts charged to all workers within a jurisdiction. Given the structure of most local income taxes today, as a general rule they are much less progressive than federal and (to a lesser extent) state income taxes.

In terms of the sheer number of jurisdictions, local taxes on income (whether levied by cities, counties, or school districts) are mostly concentrated in Iowa, Kansas, Kentucky, Ohio, and Pennsylvania, which account for 97 percent of local jurisdictions that levy the tax. Meanwhile, in states such as Alabama, Colorado, Missouri, and New York, local income taxes exist in only a few state-sanctioned locations, such as Birmingham, Denver, St. Louis, and New York City; nationally, only about 1 in 10 cities are permitted to levy local income taxes, according to National League of Cities.[78] Even where local income taxes are allowed, certain restrictions are common, such as the rate that can be levied and the income base that can be taxed.

As a result, income taxes account for a meaningful amount of locally raised revenues in only a few places. In 2020 they generated at least 15 percent of locally raised revenues in five states and much smaller levels in a handful of other states (no more than 6.3 percent in Alabama, Delaware, Indiana, Iowa, Michigan, Missouri, and Oregon). (D.C. also raises a significant amount of income tax revenue but does not have any local governments, as states do.) See Appendix 2 for more details.

## Many States Allow for Local Sales Taxes But Specifics Vary Widely

States have authorized localities to levy sales taxes to a greater degree.[79] Thirty-seven states allow local governments to levy sales taxes in at least some form.[80] Given their wider prevalence than local income taxes, sales taxes make up a larger share of locally raised revenues overall, but their importance still varies widely across states. Local sales tax revenue makes up at least 20 percent of

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[77] Jared Walczak, Janelle Fritts, and Maxwell James, "Local Income Taxes: A Primer," Tax Foundation, February 23, 2023, https://taxfoundation.org/publications/local-income-taxes. San Francisco levied a local payroll tax until voters repealed it (in favor of a tax on businesses' gross receipts) in November 2020, effective January 2021. And in at least one other state, Washington, state law appears to allow for local income taxes (due to a 2019 court decision) but none are currently levied.

[78] Michael A. Pagano and Chris Hoene, "City Budgets in an Era of Increased Uncertainty," Brookings, July 2018, https://bit.ly/3FDxrCo.

[79] Local sales taxes first appeared during the Great Depression and became increasingly common in the latter half of the 20th century, likely in part because declining property tax revenues sent localities in search for other revenue sources. New York City in 1934 became the first municipality to adopt a sales tax, followed two years later by New Orleans. By the early 1960s, 12 states had permitted sales taxes at the local level, increasing to 25 by the 1970s and to 37 today. Whitney B. Alfonso, "State LST Laws: A Comprehensive Analysis of the Laws Governing Local Sales Taxes," Public Financial Publications, Winter 2017, p. 26.

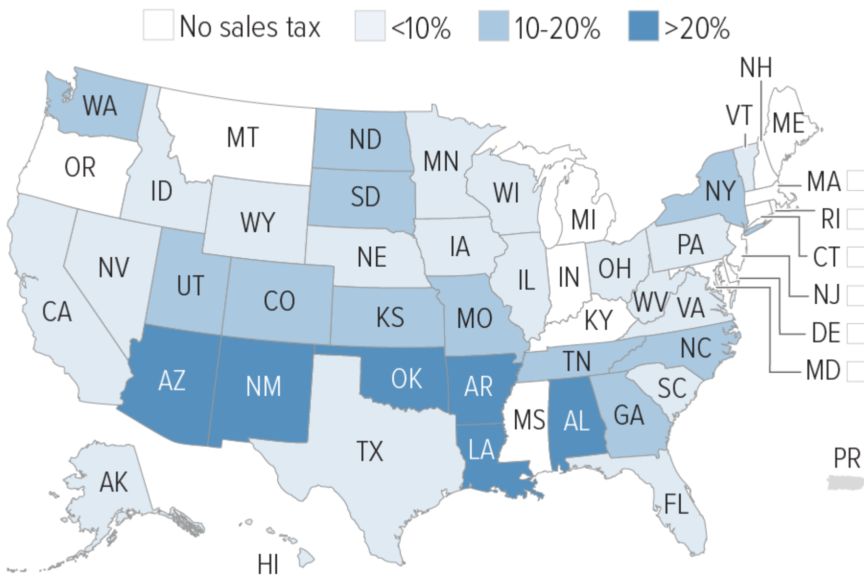
[80] Technically, 39 states authorize local sales taxes, but state law in Montana and Kentucky is so restrictive that almost no local governments have been able to adopt them. Connecticut, Delaware, Indiana, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, Oregon, and Rhode Island do not authorize local sales taxes.

total revenues in six states but less than 3 percent in another seven (excluding the states where they're not levied at all). (See Figure 8 and Appendix 2.)

FIGURE 8

## Sales Taxes Make Up Widely Varying Share of Local Revenues

Sales taxes as share of local own-source revenues, by state, 2020




Note: General sales taxes accounted for 12.4 percent of locally raised revenues in D.C. in 2020.
Source: CBPP analysis of U.S. Census Annual Survey of State and Local Government Finances

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The prevalence of local sales taxes varies by state, in terms of both *which* jurisdictions can levy the tax and *to what extent* they're allowed to. Of the 37 states that allow local sales taxes, at least 30 restrict the use of funds to a specified purpose, typically to roll back property taxes or support specific services such as transit or libraries. At least 30 states cap the allowable sales tax rate for counties, cities, or special districts (or overall).[81] And many states also require voter approval for local sales taxes.[82] These restrictions can apply differently to cities than to counties, depending on the state. Lastly, localities generally must adhere to the same sales tax base as their parent states. For example, if a state doesn't tax services, such as car repair, its local governments likely can't either.[83]

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[81] Whitney Afonso, Margaret Murphy, and Tommy Tobin, "LOSTs in Detail: A Comparison of North Carolina's Local Option Sales Tax Policy with Those of Other States," UNC Chapel Hill School of Government, August 2016, https://bit.ly/3Wi8tPY

[82] For example, of the 29 states that authorize counties to levy sales taxes, 19 require voter approval, according to the National Association of Counties. Joel Griffith, Jonathan Harris, and Dr. Emilia Istrate, "Doing More With Less, State Revenue Limitations and Mandates on County Finances," 2016, https://www.naco.org/resources/doing-more-less-state-revenue-limitations-and-mandates-county-finances.

[83] Such uniformity is required of the more than 20 states that are members of the Streamlined Sales and Use Tax Agreement and substantially reduces the sales tax compliance burden of companies that charge sales taxes in multiple

## Appendix 4: Recent State Preemption of Local Revenue Tools

**Single-use plastic fees**: At least 18 states — Arizona, Arkansas, Florida, Idaho, Indiana, Iowa, Michigan, Mississippi, Missouri, Montana, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Tennessee, Texas, and Wisconsin — explicitly prohibit local governments from adopting any fee or tax on single-use plastics, such as grocery bags or water bottles. In 2021, Colorado and Pennsylvania became the first states to reverse a previous ban on localities' ability to levy such a fee.

**Sugar-sweetened beverage (SSB) and soda taxes**: Seven localities plus the District of Columbia currently levy an SSB tax: Boulder, Colorado; Philadelphia, Pennsylvania; Seattle, Washington; and four California cities (Albany, Berkeley, Oakland, and San Francisco). Annual soda tax revenue ranges from roughly $1.3 million in Berkeley to around $65 million in Philadelphia, with soda taxes accounting for about 1 percent of general fund revenue in each of these cities. Currently, four states (Arizona, California, Michigan, and Washington State) have passed legislation preempting localities with some exceptions from enacting SSB and soda taxes (California passed legislation in June 2018 banning any new locality from establishing a soda tax for 12 years, while leaving its four existing local soda taxes in place).[84]

**Ride-sharing taxes:** At least five states — Florida, Montana, Texas, Virginia, and Washington — have adopted policies that prohibit localities from applying a tax on ride-sharing companies such as Uber and Lyft. This comes as part of a broader campaign by the industry to shield itself from local regulation. At least forty-one state legislatures have enacted laws that preempt the authority of cities to regulate transportation network companies in some fashion.[85]

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states and/or localities within a state. One consequence is that state policy changes to the taxable sales tax base routinely filter down to the local level. New sales tax exemptions enacted in state capitols commonly undercut local sales tax revenues, for example. But this also means that expanding the sales tax base, such as recent efforts to more fully tax online sales in the aftermath of the U.S. Supreme Court's Wayfair decision, can increase local revenues.

[84] Urban Institute, "Soda Taxes."

[85] Nicole DuPuis *et al.*, "City Rights in an Era of Preemption: A State-by-State Analysis," National League of Cities, February 2018, https://www.nlc.org/wp-content/uploads/2017/02/NLC-SML-Preemption-Report-2017-pages.pdf.

# Appendix 5: Local Taxing Authority and Limits by State

Table 1

## Local Taxing Authority and Limits

| | Uniformity Clause | | Authorized Local Revenue Sources | | Property Tax Limits | | | General Tax and Spending Limits | | Revenue Source Preemptions (bans and limits) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **State** | Clause exists in some form (May limit some local revenue options; more research needed) | State court interpretation appears to block all graduated local tax options | Income tax | Sales tax | Rate Limit | Levy Limit | Assessment Limit | Revenue limit | Expenditure limit | Soda tax | Single-use plastic fee | Ride sharing |
| Alabama | x | | Bessemer, Birmingham, Gadsden, Macon counties | x | x | x | | | | | | |
| Alaska | x | | | x | x | x | | | | | | |
| Arizona | x | | | x | x | x | x | | cities, counties, schools | x | x | |
| Arkansas | x | | | x | x | x | x | | | | x | |
| California | x | | | x | x | | x | | cities, counties, schools | X (through 2030) | | |
| Colorado | x | | Five cities - Aurora, Denver, Glendale, Greenwood Village, and Sheridan | x | x | x | x | cities, counties, schools | cities, counties, schools | | | |

Table 1

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| | Uniformity Clause | | Authorized Local Revenue Sources | | Property Tax Limits | | | General Tax and Spending Limits | | Revenue Source Preemptions (bans and limits) | | |
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| **State** | Clause exists in some form (May limit some local revenue options; more research needed) | State court interpretation appears to block all graduated local tax options | Income tax | Sales tax | Rate Limit | Levy Limit | Assessment Limit | Revenue limit | Expenditure limit | Soda tax | Single-use plastic fee | Ride sharing |
| Connecticut | | | | | | x | x | | | | | |
| Delaware | x | | Wilmington | | x | x | | | | | | |
| Florida | x | | | x | x | | x | | | | x | x |
| Georgia | x | | | x | x | | x | | | | | |
| Hawai'i | x | | | x | | | | | | | | |
| Idaho | x | | | x | x | x | | | | | x | |
| Illinois | x | | | x | x | x | | | | | | |
| Indiana | x | | All counties | | x | x | | | | | x | |
| Iowa | | | 280 jurisdictions | x | x | | x | | schools | | x | |
| Kansas | x | | 484 jurisdictions; interest and dividend only | x | | x | | | schools | | | |
| Kentucky | x | | 210 jurisdictions | | x | x | | | | | | |
| Louisiana | x | | | x | x | x | | | | | | |
| Maine | x | | | | | x | | | | | | |
| Maryland | x | | All counties | | | | x | | | | | |
| Massachusetts | x | x | | | x | x | | | | | | |

Table 1

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|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **State** | Clause exists in some form (May limit some local revenue options; more research needed) | State court interpretation appears to block all graduated local tax options | Income tax | Sales tax | Rate Limit | Levy Limit | Assessment Limit | Revenue limit | Expenditure limit | Soda tax | Single-use plastic fee | Ride sharing |
| Michigan | x | | 24 cities | | x | x | x | | | x | x | |
| Minnesota | x | | | x | | x | | schools | | | | |
| Mississippi | x | | | x | | x | | | | | x | |
| Missouri | x | | Kansas City and St. Louis | x | x | x | | | | | x | |
| Montana | x | | | | x | x | | | | | x | x |
| Nebraska | x | | | x | x | x | | cities, counties, schools | schools | | x | |
| Nevada | x | | | x | x | x | | | | | | |
| New Hampshire | | x | | | | | | | | | | |
| New Jersey | x | | Newark | | | x | | | cities, schools | | | |
| New Mexico | x | | | x | x | x | x | | | | | |
| New York | | | New York City and Yonkers | x | | x | x | | | | | |
| North Carolina | x | | | x | x | | | | | | | |
| North Dakota | x | | | x | x | x | | | | | x | |

Table 1

## Local Taxing Authority and Limits

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|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **State** | Clause exists in some form (May limit some local revenue options; more research needed) | State court interpretation appears to block all graduated local tax options | Income tax | Sales tax | Rate Limit | Levy Limit | Assessment Limit | Revenue limit | Expenditure limit | Soda tax | Single-use plastic fee | Ride sharing |
| Ohio | x | | 848 jurisdictions | x | x | x | | | | | x | |
| Oklahoma | x | | | x | x | | x | | | | x | |
| Oregon | x | | Multnomah County, Portland metro, and Lane Co. and Tri-Met special transportation districts | | x | | x | | | | | |
| Pennsylvania | x | x | 2,978 jurisdictions | x | x | x | | | | | | |
| Rhode Island | | | | | | x | | | | | | |
| South Carolina | x | | | x | x | | x | | | | | |
| South Dakota | x | | | x | x | x | | | | | x | |
| Tennessee | x | | | x | | | | | | | x | |
| Texas | x | | | x | | x | x | | | | x | x |
| Utah | x | | | x | x | x | | | | | | |
| Vermont | | | | x | | | | | | | | |
| Virginia | x | | | x | | x | | | | | | x |

Table 1

## Local Taxing Authority and Limits

| | Uniformity Clause | | Authorized Local Revenue Sources | | Property Tax Limits | | | General Tax and Spending Limits | | Revenue Source Preemptions (bans and limits) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **State** | Clause exists in some form (May limit some local revenue options; more research needed) | State court interpretation appears to block all graduated local tax options | Income tax | Sales tax | Rate Limit | Levy Limit | Assessment Limit | Revenue limit | Expenditure limit | Soda tax | Single-use plastic fee | Ride sharing |
| Washington | x | x | | x | x | x | | | | X (Seattle exempt) | | x |
| West Virginia | x | | Charleston, Huntington, Parkersburg, Weirton | x | x | x | | | | | | |
| Wisconsin | x | | | x | | x | | schools | | | x | |
| Wyoming | x | | | x | x | | | | | | | |

Source: CBPP analysis of sources including Lincoln Institute for Land Policy, Local Solutions Support Center, National Association of Counties, Tax Foundation, and state statutes