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# Local Government Finance Study

*Report to the Senate Ways and Means Committee  
February 1997*

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From the LEAP Study Team in Conjunction with the Work Group Members

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## EXECUTIVE SUMMARY

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### **Background**

The Senate Ways and Means Committee initiated this study in anticipation that state and local governments are likely to receive less funding and less direction from the federal government in the future. Less federal control and funding drive the need for state policy makers to learn more about local government services and finances. Past efforts to compare local services and finances to state practices have been limited to revenue analysis. This study includes both expenditure and revenue comparisons. This broader approach was made possible by the efforts of Work Group members who were able to validate the data and then synthesize detailed Budgeting, Accounting and Reporting System (BARS) account codes for both expenditures and revenues into summary categories similar to those used by the Legislature in budget development. Work Group members' expertise, enthusiasm, and collaboration were each critical success factors for producing this study.

Accumulation of detailed data into meaningful categories permitted comparisons between state and local governments that, although frequently requested, have never before been possible. Data sources for those comparisons are the BARS for county and city governments and the Comprehensive Annual Financial Report (CAFR) data for state government. This study establishes the BARS data as a credible source for communicating local government information to state policy makers.

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## EXECUTIVE SUMMARY

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### Expenditures for Services

Expenditures are grouped into nine broad service categories:

- ♦ Law and Justice Services
- ♦ Fire and Emergency Services
- ♦ Health and Human Services
- ♦ Transportation Services
- ♦ Natural Resources
- ♦ General Government
- ♦ Debt Service
- ♦ Education
- ♦ All Other

Analyses are performed on expenditures for each type of service and among the levels of governments by expenditure categories as follows:

- ♦ Combined counties and cities versus state government
- ♦ Counties versus cities
- ♦ Major categories within each level of government are compared over a six year time frame (1990 through 1995)

Findings from these comparisons were:

- ♦ Total county and total city expenditures are approximately equal in size over the study period
- ♦ Counties and cities spend more money on law and justice than any other category
- ♦ Average annual growth rates for expenditures were:
  - ✓ 9 percent for counties
  - ✓ 7 percent for cities
  - ✓ 9 percent for state
- ♦ Health and Human Services was the fastest growing category:
  - ✓ 15 percent for counties
  - ✓ 21 percent for cities
  - ✓ 12 percent for state
- ♦ Education, the largest state category, is not a service offered in any significant measure by counties or cities

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## EXECUTIVE SUMMARY

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### Revenue Sources

Revenues are grouped into three broad source categories: state programs, federal programs, and local revenue. Local revenue is further subdivided into categories of unrestricted, restricted, and charges for services. The unrestricted category of local revenue is broken out further into:

- ♦ Property Tax
- ♦ Sales and Use Tax
- ♦ Timber Tax
- ♦ Business Taxes
- ♦ Other

To facilitate comparisons with counties and cities, sources of revenue for state government are grouped as federal or local. Local revenues are then categorized as unrestricted (state general fund revenues), restricted, and charges for services.

As with expenditure information, revenue sources are compared between state and local governments, between counties and cities, and over the six year study period. Major findings from these comparisons were:

- ♦ Property tax was the largest single source of revenue for both counties and cities
  - ✓ Approximately 33 percent for counties
  - ✓ Approximately 22 percent for cities
- ♦ Sales and use and business taxes provide 33 percent of city revenues but less than 10 percent of county revenues
- ♦ State and federal programs provide over 20 percent of county revenues but less than 10 percent of city revenues
- ♦ Average annual growth rates for revenues were
  - ✓ 8 percent for counties
  - ✓ 8 percent for cities
  - ✓ 7 percent for state
- ♦ The fastest growing revenue sources for both counties and cities were federal and state programs. The federal programs category was the fastest growing revenue source for state government.
- ♦ Sales and use tax was the slowest growing revenue source for counties, cities, and state government.

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## EXECUTIVE SUMMARY

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### Expenditure and Revenue Comparisons

While expenditure analysis focuses on operating expenditures from governmental operating funds, the revenue sources to those funds are also used to fund capital expenditures. This section of the report compares revenue levels against operating expenditures first, but also subtracts capital expenditures from those revenues. Finally, transfer activity is reviewed for the governmental operating funds. If transfers out exceed transfers in, the net amount is assumed to have gone into capital projects funds. If transfers in exceed transfers out, the net amount is treated as an additional source of revenue in that year.

Findings from these comparisons were:

- ♦ County revenues consistently exceed operating expenditures by approximately \$200 million per year
- ♦ County capital expenditures from these sources average \$155 million per year
- ♦ Net transfers out of county governmental operating funds use up the remaining balance of revenues
- ♦ City revenues exceed operating expenditures by an average of \$170 million per year
- ♦ City capital expenditures from these funds average approximately \$160 million per year
- ♦ Net transfer activity for cities averages approximately \$10 million per year in to these funds
- ♦ State revenues exceed operating expenditures by varying amounts - average is \$630 million per year
- ♦ State capital expenditures from governmental operating funds average \$700 million per year
- ♦ Net transfer activity is in to these funds - averaging \$90 million per year

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### Recommendations

This study provides the Legislature with baseline information on local government finances and services that has not been available in the past. However, this information is very summarized and the processes involved in collecting and validating the data were difficult. The following recommendations are intended to routinize future data collection, data validation, and also to add new data elements needed to better understand local government finances and services. These recommendations should also improve the BARS data as a tool to be used by the Legislature when considering policy issues affecting local governments.

The first set of recommendations involve the Work Group. Analysis conducted by this group broke through barriers that in the past prevented meaningful comparisons of county and city expenditure data. The recommendations are to:

- ♦ Expand the Work Group to broaden legislative representation
- ♦ Continue the efforts of the Work Group through fiscal year 1998
- ♦ Appropriate \$20,000 for travel expenses of the Work Group

The second set of recommendations involve the State Auditor's Office. Currently, the Legislature funds the publication costs of "Local Government Comparative Statistics" annually. However, costs of compiling, maintaining, and validating the detailed BARS data from all 39 counties and 271 cities is not funded by the Legislature. Additional resources for staffing and system enhancements are needed to improve data integrity and accessibility. The recommendations for the State Auditor's Office are to:

- ♦ Appropriate \$250,000 for BARS staffing enhancements
- ♦ Appropriate \$125,000 for a BARS requirement evaluation and prototype application
- ♦ Appropriate \$250,000 for system implementations contingent on legislative acceptance of system requirements work and related prototype

The final set of recommendations address the need for data improvements. They are:

- ♦ Establish incentives for accurate, timely BARS reporting and penalties for non-reporting
- ♦ Explore the need for additional data elements including fund balances, budget information, capital data, and personnel and staffing data

Adoption of these recommendations should simplify and accelerate the process of learning more about local government services and finances.



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## INTRODUCTION

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### **Reasons for the Study**

During the 1996 Legislative Session, the Senate Ways and Means Committee convened a discussion group of legislative and local government leaders to begin planning for implementation of federal budget changes. Federal devolution of responsibilities to state and local governments will require a more comprehensive understanding of program and funding relationships between levels of government. The Committee initiated this study at the close of the 1996 session to begin developing that understanding.

The first step undertaken was to understand the baseline information on expenditures for services currently provided by state, county, and city governments. To accomplish this, county and city expenditures were accumulated into categories that generally parallel functions used by the Legislature to analyze state expenditures for services, e.g. General Government, Transportation, and Natural Resources. Understanding baseline information on funding sources for county and city services was also a necessary component. County and city revenue sources were therefore accumulated into categories that follow the state groupings used in the state budget process. This study examines expenditure and funding trends over a six year period from 1990 to 1995.

The Committee also expected this study to produce an ongoing source of information on local government finances that the Legislature could rely on. The Budgeting, Accounting and Reporting System (BARS) is the data source for counties and cities in this study. The Legislature commissioned the State Auditor's Office to create BARS in the late 1960's to provide uniform, reliable data about local governments. BARS has served well in providing standardized and auditable account structures in local governments at a low level of detail. A major challenge here involved the creation of summary categories that roll-up detailed account and sub-account data into a format comparable to fiscal information used in legislative budgeting. Those roll-ups are summarized in the sections on Expenditures and Revenues and are described in detail in Appendices B-1 and C. Data sources used for state revenues and expenditures in all cases are the audited financial statements presented in the states Comprehensive Annual Financial Report (CAFR). The state expenditure categories are described in detail in Appendix B-2.

The product of this study is a beginning point for understanding intergovernmental program and funding relationships. While the study contains considerable information, it is looking at statewide totals for counties and cities grouped into broad categories. These statewide relationships may not be reflective of the specific financial circumstances for any individual county or city. Reasons behind patterns and trends shown herein may best be understood by analyzing data at lower levels of detail. For example, cities and counties stratified into groups by population/region and expenditure/revenue analysis by components within broad categories could provide valuable information descriptive of urban versus rural trends that are different from the statewide summaries. BARS contains this more detailed information, which could be the subject of more detailed analysis in the future.



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## ACKNOWLEDGMENTS

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Sponsors of this study recognized the need for a working group which understood the many facets of local government finance. They were able to assemble a diverse group of finance professionals, administrators, association representatives, and information technology experts into a Work Group to provide guidance and direction to the study effort. This group's collective expertise enabled them to work through data validation problems and to devise ways to eliminate double counts of revenues and expenditures. Combining like expenditures within the chart of accounts, the group developed summary categories by function which made expenditure information easier to assimilate. Similarly, revenue data was aggregated into summary categories meaningful to local governments and to the state alike. To improve legislative access to and understanding of the data, the State Auditor's Office provided the LEAP Committee staff with extracts of each years BARS data. LEAP staff then organized the data into a relational database and developed summary reporting options based upon the Work Group's recommendations.

Work Group participants were generous with their time and support. This report is the result of their insight and hard work. A list of the Work Group members is included as Appendix A to this report. Special recognition should be given to Lori Moon of the State Auditor's Office. Her expert knowledge of BARS data and commitment to data integrity ensure the reliability of the underlying data.



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## APPROACH

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### **Role and Value of BARS**

The Budget Accounting and Reporting System (BARS) developed and promulgated by the State Auditor's Office is the system used by more than 90 percent of county and city governments to account for their finances. All counties and cities are required to report financial results annually to the State Auditor's Office using the BARS format. BARS is a critical resource for most counties and cities as without its existence they would be required to develop or acquire their own systems. In addition to providing and maintaining the accounting system used by most local governments, the State Auditor's Office offers training for county and city employees performing accounting activities. As new revenue sources and programs are created at the state and federal levels, requirements are imposed on local governments to account for and report on these new programs. Implementation of new requirements is much more manageable when the vast majority of the over 300 implementing entities are using a common accounting system.

Historically, the value of BARS as a basis for consistent reporting of local government finances has not been of great interest to the Legislature. Reports available from BARS have generally been in financial reporting formats: statements of assets and liabilities or summary statements of revenues and expenditures. The Legislature is accustomed to fiscal information in more of a managerial format - expenditures by activity, budget versus actual levels, staffing and workload information. The principal challenge of this study effort was to convert detailed data captured by BARS into information meaningful to the Legislature as well as increase understanding of state and local program and funding relationships. Considerable expertise resident in the Work Group was directed toward this problem.

While it is important to acknowledge the limitations of information presented in the study, the Work Group was successful in accumulating BARS data into information paralleling components used by the Legislature for making budget decisions.

### **Study Scope**

It is not the intent of the study to reflect total information on local and state finances. The study concentrates on operating expenditures from "governmental operating funds" and on revenues flowing into those funds. This grouping includes county and city general funds, special revenue funds, and debt service funds which account for activities of a "general government" nature carried out by counties and cities. State expenditures within the scope of the study are also from the "governmental operating funds" group.

The study does not include a review of expenditures for capital purposes. However, since counties, cities and state government make capital purchases from governmental operating funds those expenditures are noted in the study section which compares revenues and expenditures.

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Cities and counties are not the only entities which provide local government services. Services are also provided by special taxing districts which provide most local library services and for the counties most fire and emergency services. These special taxing districts have not been included in the study.

The study period includes 1990 through 1995. Comparisons between state and local finances by year are offset by six months due to the state operating on a fiscal year basis, beginning July 1, and counties and cities operating on a calendar year basis beginning January 1. For example, these comparisons show state fiscal year 1990 aligned with calendar year 1990. Neither this, or the differences discussed in this section, preclude the usefulness of the information as a baseline for beginning the process of understanding relationships between state and local finances and services.

# **Expenditures for Services**

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## EXPENDITURES FOR SERVICES

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### Description of Services Provided

Past studies of local government finances have concentrated on revenue data because of the greater complexities inherent in analyzing expenditures for services. For this study, county and city services have been grouped into summary categories with parallels in state services (except for the local category of Fire and Emergency Services). The Work Group developed the categories and assigned individual BARS accounts to these categories on the basis of detailed knowledge of local government finances and expert understanding of the BARS data. These groupings roll-up individual BARS account codes into seven major service activities plus an “All Other” category as follows:

- ♦ Law and Justice Services
- ♦ Fire and Emergency Services
- ♦ Health and Human Services
- ♦ Transportation (Roads and Streets)
- ♦ Natural Resources (Environment & Development and Parks & Recreation Services)
- ♦ General Government Services
- ♦ Debt Service
- ♦ All Other (Other Transportation and Libraries)

State services have been grouped into the same categories along with the addition of an “All Education” category.

Assigning expenditures for services to these categories was a critical step toward understanding intergovernmental program and funding relationships. Appendix B1 details the BARS accounts included in each category for county and city expenditures. The following is a summary description of each category and its major components.

**Law and Justice Services** - Includes the court systems at the county, city and state levels. Law enforcement is also a major component. Detention and corrections services for adults and juveniles are significant activities in this category. Legal services provided to the county, city, and state are included here as well.

**Fire and Emergency Services** - Includes general fire fighting and prevention services. Rescue, emergency aid, and disaster recovery services are the other major components of this category. This is the only local government category without a counterpart in state services.

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**Health and Human Services** - Includes community mental health services and public health services. These categories account for the majority of Health and Human Services delivered at the local government level. At the state level this category includes all programs in the Department of Social and Health Services except Juvenile Rehabilitation which is part of the Law and Justice category. Other major components of Health and Human Services at the state level are the Basic Health Plan administered by the Health Care Authority and the state Department of Health.

**Transportation Services (Roads and Streets)** - Since this study focuses only on operations and not on capital, road and street maintenance is the dominant service activity included for local government. State transportation costs reflected here include the operating programs for the Department of Transportation, the state Department of Licensing, and smaller agencies such as the Transportation Safety Commission.

**Natural Resources (Environment and Development Services and Parks and Recreation Services)** - Combines several activities carried out by local governments. Included are environmental preservation activities such as soil and water conservation, flood control, and pollution control. Zoning and land use planning are also included as are building permits. Maintenance and general operation of park facilities and multipurpose community centers are in this category. Operation costs for proprietary activities such as golf courses and stadiums are not included.

State activities grouped here include operations of the state departments of Ecology, Fish and Wildlife, Natural Resources, Parks and Recreation, and Agriculture.

**General Government Services** - Includes services of the legislative body at both local and state government levels, it also includes the general management and administration of each government entity provided by the central executive. Costs of maintaining and operating facilities appear in General Government as do costs of central services such as finance, personnel, and motor pools. Also included are costs for all agencies and programs that don't fit in any of the other categories, e.g. offices such as state and county Auditors and Treasurers.

**Debt Service** - This category is limited to interest and other costs of servicing debt in governmental funds along with costs of issuing and retiring that debt.

**All Other** - This category includes expenditures for Municipal Libraries and Other Transportation Services.

**All Education** - Although not part of services provided by counties and cities, All Education is the largest category of state services. It includes state funding for the public school system, community colleges, four year colleges and universities. It also includes funding for other education-related agencies such as the State Library, Arts Commission, and Historical Society.

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The category groupings described earlier are intended to identify commonalities in services provided at county, city, and state levels of government. It is important to note, however, that both the mix of services and level of emphasis vary greatly between counties, cities, and the state.

### **Expenditures by Category - Local Government Compared to State**

The following chart compares combined county and city expenditures with state expenditures. The category of Law and Justice provides an obvious illustration of varied emphasis and level between local and state government. Approximately 30 percent of local expenditures are directed toward Law and Justice while this category accounts for less than 5 percent of state expenditures for services. Another example is Fire and Emergency which has no state service counterpart. It is also worth noting that the combined expenditures for counties and cities in Natural Resources is more than state expenditures for that category. State emphasis is on Education Services and Health and Human Services, these two areas account for nearly 80 percent of state services.

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### **Expenditures by Category - Combined State and Local Government**

The following table combines the total expenditures, by category, for counties and cities with the state amounts. The percent of “service” provided by local governments and the percent of total for the combined expenditures are also shown.

Some double counting occurs when the expenditures for county, city, and state are combined for display in this table. Local government expenditures for a particular program may be funded from monies received from the state. The state agency providing the funds to the county or city would also show that activity as an expenditure.

Local governments account for more than 50 percent of combined statewide expenditures in the categories law and justice (70 percent), Fire and Emergency (100 percent), and Natural Resources (55 percent). State expenditures represent more than one-half of total expenditures in the categories Health and Human Services (92 percent), Transportation (62 percent), General Government (61 percent), and Education (100 percent).

On a statewide basis, the largest expenditures are for Education and Health and Human Services.

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### **Expenditures by Category - Counties Compared to Cities**

Total operating expenditures are nearly equal between counties and cities with Law and Justice as the largest expenditure category for both. General Government Services and Debt Service are roughly comparable as well. However, as was the case between state and local governments, significant differences in service emphasis occur between counties and cities. Counties direct nearly 20 percent of their resources to Health and Human Services while cities spend less than 5 percent in this area. The opposite occurs in the category of Fire and Emergency Services with cities spending almost 16 percent and counties 4 percent. The category of Natural Resources is similar with cities spending over 20 percent and counties spending are just under 10 percent.

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### Expenditure Trends - Totals by Level of Government

The following graph summarizes changes in operating expenditure levels over the six year study period. County and state expenditures grew at an average annual rate of approximately 9 percent, cities experienced the lowest average growth at approximately 7 percent. All three levels of government grew by cumulatively more than 20 percent in the first two years. City growth levels slowed in calendar year 1993 but picked up again in 1994 and 1995. County growth levels continued strong through 1994 and dropped off significantly in 1995. State expenditures grew by double digits each year except fiscal year 1994.

These growth rates are based on the reported BARS data. Adjustments to the total numbers need to be considered for those counties and cities which failed to file reports. The 1990 base year for counties is understated because four counties did not file BARS reports. Adjusting the statewide totals to reflect what should have been reported changes the cumulative percent growth amounts. County growth over the six year period would change from 54 percent down to 49 percent. Average annual growth for counties would also drop from just over 9 percent to approximately 8 percent.

The effect of non-reporters is less dramatic for cities. The impact over the study period would be an increase in cumulative growth of approximately one-half of one percent. Appendix D details the non-reporters over the period of the study. Presently there is no disincentive or penalty for not submitting BARS data to the State Auditor's Office. For future detailed analysis and data stratification to provide valid data, it is essential for all local governments to submit accurate and timely data.

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### **Expenditure Trends - By Service Category for All Levels of Government**

The following bar chart tracks the average annual percent change in expenditures from 1990 to 1995 for the largest expenditure categories. The bars are arranged in the order of counties, then cities, followed by the state for each of the six categories shown. Average annual percent change and the percent of total expenditures are also provided.

The greatest average annual percent change is in the Health and Human Services category. On an annual average basis, cities have experienced growth of 21 percent in this category which represents just over 4 percent of all city expenditures. For all three types of governments, Natural Resources and Law and Justice have growth in excess of 8 percent per year.

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### **Expenditure Trends -By Service Category for All Levels of Government**

The following table breaks out details underlying overall growth in county, city, and state expenditures. It includes a column combining county and city data into a total local grouping. The table clearly shows Health and Human Services as a major factor in overall growth. The Natural Resources category also grew faster than the average rate for each jurisdiction. The category with consistently below average growth rates was Debt Service. Transportation Services were below average in the Total Local column, but above average for state expenditures. Growth in General Government expenditures was well below average for counties and state government.

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### **Expenditure Trends - By Service Category for Counties**

The next set of charts and tables depicts growth in expenditures from 1990 to 1995 for counties. The pie charts show the percent of total expenditures by category and for reference, the average annual percent change is included for 1995 expenditures.

Total expenditures for counties have increased about 9 percent per year with above average increases occurring in three categories: 1) Fire and Emergency, 2) Health and Human Services, and 3) Environment and Development. General Government has experienced the lowest average annual percentage change.

Health and Human Services and Environment and Development have both increased as a percent of total expenditures while the General Government and Roads and Streets categories have declined.

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### **Expenditure Trends - By Service Category for Counties**

The following line chart graphs the cumulative percent change (growth) for the largest county expenditure categories.

Natural Resources and Health and Human Services are the fastest growing categories in excess of 13 percent on an average annual basis. Transportation and General Government have been increasing at just over 6 percent per year. The largest expenditure category, Law and Justice, has shown steady growth increasing at just under 9 percent per year.

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### **Expenditure Trends - By Service Category for Cities**

City expenditure growth from 1990 to 1995 is shown on the following charts and tables. The average annual growth for cities of 7 percent is below the county growth rate of 9 percent shown earlier.

The largest expenditure category of Law and Justice has gained in importance as a percent of total expenditures growing at an annual average rate of 8 percent. Health and Human Services and Environment and Development have been increasing at the fastest pace with Health and Human Services more than doubling since 1990.

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### **Expenditure Trends - By Service Category for Cities**

The following line chart graphs the cumulative percent change for the largest city expenditure categories. Also shown in the table is the annual percentage change. With the exception of Debt Service, all categories have been increasing around 7 percent or 8 percent annually over the six year study period.

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### **Expenditure Tables - Annual Amounts for Combined State and Local**

For reference purposes, the following table combines expenditures for counties, cities, and the state. Total expenditures for 1995 are greatest in the categories of Education and Health and Human Services (the category with the largest cumulative growth). As stated previously, some double counting occurs when the expenditures for county, city, and state are combined for display in this table. Local government expenditures for a particular program may be funded from monies received from the state. The state agency providing the funds to the county or city would also show that activity as an expenditure.

This table provides a preliminary description of distribution of expenditure categories within the state, aggregating county, city and state expenditures for services.

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### **Expenditure Tables - Annual Amounts for Counties, Cities, and State**

The following three tables display annual expenditures by category for counties, cities, and the state. Also shown are the percent of total and percent growth for each category. This is the expenditure data upon which the previous charts and tables are based.

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## EXPENDITURES FOR SERVICES

### Summary

Material in this section describes categories of expenditures, their relative sizes and their growth patterns over the study period. Expertise of Work Group members was the critical ingredient leading to meaningful expenditure categories. The resulting analysis represents a real breakthrough in the attempt to communicate local finance information to state policy makers.

This review of BARS expenditure data for counties and cities, and CAFR data for state expenditures has revealed that:

<p><i>The mix of services across expenditure categories are more balanced for counties and cities than the state.</i></p>	<b>Categories Representing 10% or More of Services</b>		
	State		Counties & Cities
	Education	43%	Law & Justice
Health/Human Svcs	35%	Health/Human Svcs	11%
		Fire & Emergency	10%
		Transportation	12%
		Natural Resources	15%
		General Government	14%
<p><i>County and city governments account for more than 50 percent of the combined statewide expenditures in three categories.</i></p>	<b>Local Share of Statewide Expenditures</b>		
	Law and Justice	70%	
	Fire and Emergency	100%	
	Natural Resources	55%	
<p><i>Over 90 percent of all Health and Human Services expenditures are provided by the state.</i></p>	<b>Health and Human Services Expenditures</b>		
	Counties	7%	
	Cities	2%	
	State	92%	
<p><i>The mix of services between counties and cities in the categories of Health and Human Services and Fire and Emergency Services is quite different.</i></p>	<b>County and City Mix of Services</b>		
		Counties	Cities
	Health/Human Svcs	20%	4%
Fire and Emergency	4%	16%	

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<p><i>Health and Human Services is the only expenditure category with an annual average growth in excess of 10 percent for each level of government.</i></p>	<b>Health and Human Services Growth</b>	
	<p>Counties                      15%</p> <p>Cities                            21%</p> <p>State                                12%</p>	
<p><i>County expenditures are experiencing the greatest annual average percentage growth in three categories.</i></p>	<b>County Expenditure Growth Categories</b>	
	<p>Health/Human Services      15%</p> <p>Natural Resources            14%</p> <p>Fire and Emergency         13%</p>	
<p><i>City expenditure growth was balanced in all major categories, none of which grew on an annual average basis above 9 percent.</i></p>	<b>City Expenditure Growth Categories</b>	
	<p>Law and Justice                8%</p> <p>Natural Resources            8%</p> <p>Fire and Emergency         7%</p> <p>General Government         8%</p> <p>Transportation                7%</p>	

The foregoing material represents a new approach for analyzing local government expenditures. It categorizes county and city data in a manner similar to how the Legislature views state budget data. This approach is consistent with the study objective to develop a better understanding of program and funding relationships between state and local government. It is, however, only a first step. It is likely this material will raise more questions than it answers. The category groupings may need revision now that they are populated with several years of data. The mix of services between categories will need to be examined for individual counties and cities to validate the relationships. Growth rates for expenditures will also need to be examined for individual counties and cities.

Concentrating on governmental operating funds rather than the general fund is a different approach for reviewing state expenditure levels. This data will need more detailed review to identify and quantify anomalies which may surface as time allows closer scrutiny of the data.

If this approach holds sufficient promise to warrant annual updates and maintenance it will be essential to retain the Work Group's ongoing involvement. How the Work Group can increase the value of expenditure information and make its collection and compilation more systematized will be discussed in the Recommendation section of the report.



# Revenue Sources

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## REVENUE SOURCES

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### Description of Revenue Sources

Much like the information presented for expenditures for services, BARS data was summarized into general source categories by the Work Group. The detailed account data was then summarized into the general categories for comparison purposes. Different categories were created for those revenue which were from state, federal or local government sources. This led to summary categories with added detail presented for the four largest sources of unrestricted local revenue. The categories developed by the Work Group are:

- ♦ State Programs
- ♦ Federal Programs
- ♦ Local Revenue
  - Unrestricted (Property Tax, Sales and Use Tax, Timber Tax, Business Taxes, Other)
  - Restricted
  - Charges for Services

Appendix C details the BARS accounts included in each category for county and city revenues. (The sub-accounts are not listed.) The following is a brief description of the revenue categories and their significance.

**State Programs** - Represents cash furnished by the state government to local governments directly or indirectly under contractual arrangements that provide aid or reimburse the local government for the costs it has incurred.

There were over 50 BARS sub-accounts for this category listed in 1995, in total over \$275 million was provided to counties and cities from state sources. This category accounted for 10 percent of county and 2 percent of city total operating revenue. The four largest sources accounted for 73 percent of all state grants and included grants from the Department of Social and Health Services (\$104 million); Department of Transportation (\$47 million); Transportation Improvement Board (\$31 million); and the Department of Health (\$20 million).

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## REVENUE SOURCES

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**Federal Programs** - There are three broad categories of federal program revenue sources: 1) direct federal grants; 2) entitlements, impact payments, and in-lieu taxes; and 3) indirect federal grants.

In total, the 186 individual sub-sources produced \$357 million for counties and cities in calendar year 1995. These federal programs accounted for 11 percent of county revenue and 5 percent of city revenues. The four largest, each over \$30 million, accounted for 52 percent of this revenue grouping. The four largest in 1995 were: Federal Highway Administration Grants (\$61 million); Community Planning and Development Block Grants (\$49 million); Medical Assistance-Title XIX Grants (\$42 million); and Department of Health and Human Services Grants (\$34 million). Department of Housing and Urban Development Grants ranked sixth in importance and provided \$10 million.

**Property Tax** - This is the largest source of revenue for local governments and produces 33 percent of all county revenue and 22 percent of city revenue. The state has less reliance on the property tax, 7 percent of revenues came from this source in 1995.

**Sales and Use Tax** - Sales tax is levied against the selling price of tangible personal property. Sales taxes are administered and collected by the Department of Revenue and distributed monthly to local governments. The sales and use tax is the largest single revenue source to the state (28 percent of all revenue) and accounts for approximately 9 percent of county revenue and 19 percent of city revenue.

State sales and use tax rate is 7 percent and when combined with all local rates ranges from 7 percent to 8 percent. All counties and cities levy a basic sales and use tax rate of 0.5 percent. An optional rate up to 0.5 percent is levied by most counties and cities. The combined 1 percent rate is used to fund general government programs. Four counties (Asotin, Cowlitz, Skamania, and Klickitat) and thirteen cities in “border” areas do not levy any optional tax. Clark county levies a portion of the optional tax, the rate is 0.3 percent.

In addition to these basic and optional rates for general purposes several counties and cities are authorized to levy special sales taxes for public transportation, criminal justice costs, juvenile justice facilities, convention centers, and stadiums and tourism promotion. Receipts to counties and cities from these special sales taxes are included in the local restricted grouping.

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## REVENUE SOURCES

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**Timber Tax** - Counties are allowed to impose a 4 percent timber excise tax on the stumpage value of timber harvested. The county tax is administered and collected by the Department of Revenue and credited against the state 5 percent timber excise tax. The excise tax was first enacted in 1984 when timber grown on private or federally owned land was exempted from the property tax. There are no restrictions on how the tax proceeds may be expended by the counties. In 1995, this source accounted for approximately 2 percent of all county revenues.

**Business Taxes** - Includes the Business and Occupation (B&O) tax on private business, utility taxes, admissions taxes, and parking taxes.

The four categories above account for 90 percent of business taxes. The single largest source is the B&O tax on private business and accounts for 41 percent of revenue in this group. Counties are not authorized to levy this general B&O tax and many cities, while authorized, do not levy the tax. (According to a 1994 survey of 270 municipalities by the Association of Washington Cities, 30 cities indicated they currently levy a B&O tax.) Business taxes represent a much larger percent of total revenue for cities at 15 percent than for counties at 0.3 percent. Most county business tax revenue comes from a parking tax imposed on persons engaged in operating a commercial parking business. Another large source is the utility tax on cable television.

**Other** - This grouping represents 24 BARS categories and accounted for 16 percent of county and city revenues in 1995. The largest sources within the category are: interest earnings (\$134 million); non-business licenses and permits (\$83 million); interfund taxes (taxes on municipalities own utilities, \$76 million); state shared revenues like liquor taxes and profits and sales tax equalization payments (\$61 million); and rents and leases (\$54 million). This grouping also includes such items as penalties and interest on delinquent taxes and business licenses and permits.

**Restricted Revenue** - Revenues from sources listed in this group are “earmarked” for specific expenditure purposes and are not available for general government uses.

Major revenue sources of this group are: 1) certain state entitlements, impact payments and in-lieu taxes; and 2) excise taxes. The excise tax category includes: motor vehicle/fuel excise tax; real estate excise tax; household tax; and gambling excise tax. The restricted revenue category represented approximately 12 percent of local revenues and is divided fairly equally between counties and cities.

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## REVENUE SOURCES

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**Charges for Services** - This is a broad category which contains numerous fees and charges. Examples include items such as recording and filing fees, administrative fees (inter-fund charges), charges for crowd control, adult and juvenile counseling, electronic home monitoring, conservation fees, pollution control fees, road maintenance and repair charges, court fees and charges, zoning and subdivision fees, charges for mental and physical health services, recreational activity and admission fees. In 1995, counties and cities received approximately 9 percent of their revenues from these sources.

### Description of Sources for State Government

The Comprehensive Annual Financial Report (CAFR) was used as the source for all state revenue data. In many cases, the state revenues listed are self explanatory and other than for the rate of tax, compare directly to the local source; the property tax and sales and use taxes are examples. However, in order to display state sources along side local sources, revenues from the CAFR were regrouped to approximate the local categories developed by the Work Group. Governmental operating revenue for the state includes revenues in the governmental fund types: 1) general, 2) special revenue, and 3) debt service. Excluded are “expendable trust” revenue (unemployment and workers’ compensation contributions) and capital project funds.

Sources to the state listed as **Federal Programs** are federal grants-in-aid. **Local Revenue** for the state consists of all non-federal revenue. **Local Revenue Unrestricted** for the state consists of all non-federal revenue in the general fund, it also excludes charges for services which are shown separately. The **Business Taxes** category for the state includes only the business and occupation tax. The local unrestricted **Other** category is the difference between total general fund and the separately listed sources; excise taxes, other taxes, and miscellaneous revenue would be in this grouping. **Restricted** revenue for the state includes the motor vehicle and fuel taxes, as well as any other non-general fund sources not listed separately. The grouping **Charges for Services** for the state includes the category charges for services as well as all licenses, permits, and fees.

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## REVENUE SOURCES

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### **Revenue Sources – Local Government Compared to State**

The tables and pie charts which follow show that state revenues are about three and one-half times greater than the combined total for counties and cities. Non-local revenues (federal programs for the state and federal and state programs for counties and cities) account for a much larger share of state revenues (26 percent) than for the local governments (14 percent). Almost half of local revenues come from three sources: property tax, sales and use tax, and business taxes. The largest single source of revenue for counties and cities is the property tax followed by the sales and use tax; for the state this order is reversed. Business taxes are a slightly larger revenue source for the state than for local governments. The revenues listed as unrestricted are a larger percent of total revenue for counties and cities (65 percent) than for the state (57 percent).

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Sources - Combined State and Local Government**

The following table combines county and city revenue with the state totals and shows what percent is generated by the local governments. On a combined total basis the percent of total for each revenue category is also listed.

More property taxes are collected by counties and cities than by the state as is also the case for the timber tax (which represents a very small percent of total revenue). The largest source of revenue comes from the sales and use tax (25 percent) followed by funds from federal programs (22 percent). In total, counties and cities represent 23 percent of the combined revenues collected.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Sources - Counties Compared to Cities**

The following tables and pie charts show that statewide counties and cities are nearly equal in total revenues at \$2.2 billion for calendar year 1995, however, there are substantial differences in their respective revenue sources. Counties are much more reliant on revenues from state and federal programs than are cities. Counties received 21 percent of their revenue from these two sources compared to the 7 percent for cities. The single largest revenue source for counties is the property tax, generating 33 percent of total revenues followed by the sales and use tax at 9 percent. Cities reliance on the property tax, also the single largest source, accounted for a smaller percent of revenues at 22 percent followed by the sales and use tax at 19 percent. The ability of cities to impose a B&O tax is also evident where business taxes represent 15 percent of their revenues compared to less than one-half percent for the counties. Charges for services and restricted local revenues were similar for both counties and cities.

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## REVENUE SOURCES

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## REVENUE SOURCES

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### **Revenue Trends - Totals by Level of Government**

Revenue change from 1990 through 1995 has been positive in each year for the state, counties, and cities. The six year annual average growth has been between 7 percent and 9 percent. Compared to the state, both county and city revenues have increased at a slightly faster rate. For the six year period the cumulative percent change for counties was 50 percent, followed by the cities at 45 percent, and the state at 43 percent.

These growth rates are based on the reported BARS data. Adjustments to the total numbers need to be considered for those counties and cities which failed to file reports. The 1990 base year for counties is understated because four counties did not file BARS reports. City data for 1995 is also understated due to the lack of filings by seven cities in that year. Adjusting the statewide totals to reflect what should have been reported changes the cumulative percent growth amounts. As adjusted both counties and cities would have cumulative growth of approximately 46 percent. Appendix D details the non-reporters over the period of the study. Presently there is no disincentive or penalty for not submitting BARS data to the State Auditor's Office. For future detailed analysis and data stratification to provide valid data, it is essential for all local governments to submit accurate and timely data.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for All Levels of Government**

The following bar chart shows the cumulative growth for selected revenue categories for counties, cities, and the state. For comparison purposes the tables below the chart display the average annual percent change and the 1995 percent of total revenue for each category.

Federal and state programs combined have shown the largest cumulative percent change since 1990. Although the growth has been the largest for cities compared to counties and the state, this category represents only 7 percent of city revenue.

The largest revenue sources, property taxes and sales and use tax, have had the lowest cumulative percent growth with annual average increases below 9 percent. The lowest growth of a revenue source was for the county sales and use tax, averaging 4 percent per year.

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## REVENUE SOURCES

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for All Levels of Government**

The next table combines county and city revenue into a total local column for the years 1990 and 1995. State revenue data can then be compared to the local revenue totals. Also shown are the cumulative percent change and percent of total by revenue category.

In only one category do local governments collect more revenue than the state - the property tax. In terms of greatest growth, federal programs rank first for both local government and the state. Of the major sources, the sales and use tax has displayed the least amount of growth.

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## REVENUE SOURCES

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for Counties**

From 1990 to 1995 the county revenue source experiencing the greatest growth was federal programs. This category increases from 8 percent of revenues in 1990 to 11 percent in 1995. Growth in restricted revenues has outpaced other major categories. Local unrestricted revenues have declined as a percent of total revenue but still represent the majority of county revenues at 58 percent.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for Counties**

The largest unrestricted revenue source for counties is the property tax. The cumulative percent growth was the highest at 53 percent for this source, followed by the sales tax at 22 percent. The property tax and sales and use tax account for nearly 75 percent of the unrestricted revenues in 1995.

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## REVENUE SOURCES

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for Counties**

The following line chart graphs the cumulative percent change of the largest county revenue sources. Detail for the cumulative percent change since 1990 and the average annual percent change are also shown.

The slowest growing revenue source for counties has been the retail sales and use tax. The fastest growing source has been federal and state programs. The largest revenue source, the property tax, has been increasing steadily at about 9 percent per year.

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## REVENUE SOURCES

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for Cities**

City revenues like those of counties have seen the largest five year cumulative growth in the federal programs category. Revenues in the local unrestricted category have declined as a percent of total revenues, as a grouping it accounts for 73 percent of city revenue. This is a larger percent than for counties. The charges for services category has also grown in importance, almost doubling since 1990.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for Cities**

City unrestricted revenues are nearly balanced between property and sales and use taxes, each accounting for 25 percent to 30 percent of this revenue grouping. The property tax, like that for counties, has grown the fastest and now accounts for 30 percent of unrestricted revenue. The sales and use tax and business tax categories have remained relatively stable as a percent of total over the six year period. The all other category has experienced the lowest growth.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Trends - By Source Category for Cities**

Growth in the largest revenue categories for city revenue is shown by the following line chart. The largest revenue sources for cities, property tax, and sales and use tax have shown the lowest cumulative growth, averaging between 6 percent and 8 percent per year. The fastest growing revenue source for cities has been from federal and state programs followed by the charges for services category.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Tables - Annual Amounts for Combined State and Local**

The following table provides a summary of the combined state, county, and city revenues by year and revenue category. Percents of total and cumulative percent change from 1990 are also listed. On a combined basis the largest revenue sources are: 1) sales and use taxes at 25 percent of total; 2) federal programs at 22 percent; and 3) property taxes at 11 percent of the total. Sources growing at faster than average rates are state and federal programs, charges for services, and the property tax. Below average growth occurs in the categories sales and use tax and business taxes. The category restricted revenue representing 10 percent of the total has grown faster (43 percent) than unrestricted revenue (34 percent) which represented 59 percent of total revenue in 1995.

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### **Revenue Tables - Annual Amounts for Counties, Cities, and State**

The following three tables provide the annual revenues, by category, for counties, cities, and the state. Also shown are percent of total and percent of growth for each category. This is the revenue data upon which the previous charts and tables are based.

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## REVENUE SOURCES

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**REVENUE SOURCES**

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**REVENUE SOURCES**

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## REVENUE SOURCES

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### Summary

The previous data and analysis describe current revenue sources, their importance, growth trends, and the availability of these revenues to counties and cities for operating purposes. The study approach developed categories of revenue that were meaningful to local governments based on the expertise of the Work Group members. Detailed data from the BARS reports for each county and city was reviewed and assigned to one of the revenue categories. This permitted a roll-up of the individual revenue sources for use in this report. Development of different revenue categories displaying the revenue data in more detail by source and reviewing the extent to which certain sources can or can not be used for general purposes would be useful steps to consider for future analysis. Stratifying the data according to demographic differences (by population size, per capita, geographic location) should also produce useful information.

This review of the BARS revenue data for counties and cities has revealed that:

<p><i>Federal Programs have become a more important source of funding between 1990 and 1995. This is true for counties, cities, and the state.</i></p>	<p style="text-align: center;"><b>Federal Programs</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>1990 % of Total</u></th> <th style="text-align: center;"><u>1995 % of Total</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">8%</td> <td style="text-align: center;">11%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">3%</td> <td style="text-align: center;">5%</td> </tr> <tr> <td>State</td> <td style="text-align: center;">22%</td> <td style="text-align: center;">26%</td> </tr> </tbody> </table>		<u>1990 % of Total</u>	<u>1995 % of Total</u>	Counties	8%	11%	Cities	3%	5%	State	22%	26%
	<u>1990 % of Total</u>	<u>1995 % of Total</u>											
Counties	8%	11%											
Cities	3%	5%											
State	22%	26%											
<p><i>State Programs provide more revenue to counties than cities.</i></p>	<p style="text-align: center;"><b>State Programs</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>1995 % of Total</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">10%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">2%</td> </tr> </tbody> </table>		<u>1995 % of Total</u>	Counties	10%	Cities	2%						
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Counties	10%												
Cities	2%												
<p><i>Cities are showing the greatest percent of revenues as unrestricted for 1995.</i></p>	<p style="text-align: center;"><b>Unrestricted Revenue</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>1995 % of Total</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">58%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">73%</td> </tr> <tr> <td>State</td> <td style="text-align: center;">57%</td> </tr> </tbody> </table>		<u>1995 % of Total</u>	Counties	58%	Cities	73%	State	57%				
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State	57%												

## REVENUE SOURCES

<p><i>Property taxes are growing faster than the average for all revenues for counties, cities, and the state. It is also the single largest source of funds for counties and cities.</i></p>	<p style="text-align: center;"><b>Property Taxes</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>Cumulative % Growth</u></th> <th style="text-align: center;"><u>1995 % of Total</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">53%</td> <td style="text-align: center;">33%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">48%</td> <td style="text-align: center;">22%</td> </tr> <tr> <td>State</td> <td style="text-align: center;">52%</td> <td style="text-align: center;">7%</td> </tr> </tbody> </table>		<u>Cumulative % Growth</u>	<u>1995 % of Total</u>	Counties	53%	33%	Cities	48%	22%	State	52%	7%
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<p><i>Charges for services are growing faster than the average increase for all revenues.</i></p>	<p style="text-align: center;"><b>Charges for Services</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>Cumulative % Growth</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">64%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>State</td> <td style="text-align: center;">51%</td> </tr> </tbody> </table>		<u>Cumulative % Growth</u>	Counties	64%	Cities	100%	State	51%				
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<p><i>Restricted revenues are growing faster than the average for counties and cities, but not the state.</i></p>	<p style="text-align: center;"><b>Restricted Revenue</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>Cumulative % Growth</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">66%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">63%</td> </tr> <tr> <td>State</td> <td style="text-align: center;">38%</td> </tr> </tbody> </table>		<u>Cumulative % Growth</u>	Counties	66%	Cities	63%	State	38%				
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<p><i>Retail sales and use taxes are growing at rates below the average and are twice as important to cities compared to counties. It is the largest single source for the state.</i></p>	<p style="text-align: center;"><b>Retail Sales and Use Tax</b></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="text-align: center;"><u>Cumulative % Growth</u></th> <th style="text-align: center;"><u>1995 % of Total</u></th> </tr> </thead> <tbody> <tr> <td>Counties</td> <td style="text-align: center;">22%</td> <td style="text-align: center;">9%</td> </tr> <tr> <td>Cities</td> <td style="text-align: center;">33%</td> <td style="text-align: center;">19%</td> </tr> <tr> <td>State</td> <td style="text-align: center;">33%</td> <td style="text-align: center;">28%</td> </tr> </tbody> </table>		<u>Cumulative % Growth</u>	<u>1995 % of Total</u>	Counties	22%	9%	Cities	33%	19%	State	33%	28%
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Cities	31%												
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# **Expenditure and Revenue Comparisons**

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## EXPENDITURE AND REVENUE COMPARISONS

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### Comparison of Revenues and Expenditures

The unique emphasis of this study has been to accumulate county and city expenditures for services into categories that are meaningful to Legislators. This was accomplished by creating broad groupings of operating expenditures that resemble groupings used to make funding decisions for state services. Services included in each group were described and compared between counties, cities, and the state. Expenditures were analyzed over six years by calculating growth rates for each level of government and reviewing mix of services within each level over those six years.

County and city revenue data has also been accumulated into categories that resemble groupings used by the Legislature in budget development. Comparisons span the same six year period used for expenditures. The purpose of this section is to compare revenues received with operating expenditures for services and make some observations about the disposition of revenues in excess of operating expenditure levels.

This analysis is limited by incomplete fund balance information for counties and cities. Reporting problems with fund balances in past years prompted the Work Group to recommend excluding them from this analysis. Because of this data limitation, each years revenues and expenditures are analyzed as independent events without the context of resources available from balances at the beginning of the year. Absence of beginning balances also precludes analysis of changes in fund balance from one year to the next. Both the State Auditor's Office and the Work Group are interested in resolving fund balance reporting problems so this information can be reliably available in future years.

The study has focused on operating expenditures for services from three fund groups: general funds, special revenue funds, and debt service funds. These three fund types along with capital projects funds comprise a broader category called "governmental funds." These are the funds intended to record the financial dimension for activities "of a governmental nature" carried out by governmental units. Because capital project funds are outside the study scope we refer to the funds analyzed as "governmental operating funds."

Although the study has focused on operating expenditures for services, revenues received in the general funds and special revenue funds are not limited to operating use only. At the state level general fund use for capital purposes has been mostly limited to purchases of furniture, fixtures, and office equipment. Exceptions to this practice have occurred in times of large general fund surpluses. Use of special revenue funds for broader capital purposes is much more common in state government, e.g. use of motor vehicle fund monies for highway construction.

County and city governments use both general and special revenue funds as primary sources for a broad range of capital projects.



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## **EXPENDITURE AND REVENUE COMPARISONS**

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The tables which follow compare revenues received in the governmental operating funds with operating expenditures first and then compares the remaining balance with capital expenditures made out of these same funds. The balance remaining after both operating and capital expenditures are subtracted is then compared against the net transfer activity. Net transfer activity is calculated by summing all transfers into each of these funds, then subtracting the sum of all transfers out. Net transfers out of these governmental operating funds are assumed to go into the capital projects fund to support capital expenditures. These tables depicts these comparisons for total counties, total cities, and for state government.

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## EXPENDITURE AND REVENUE COMPARISONS

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### County Comparisons

For counties, revenues exceed expenditures by approximately \$200 million to \$258 million from 1990 through 1995. As explained above, counties use this difference, along with transfers, to fund capital projects. Comparing revenues with expenditures (operating plus capital) and net transfers account for almost all revenue collected.

In 1994, the combined expenditures and transfers actually exceeded revenue collected that year. The difference (\$81 million) was likely covered by previous fund balances which are not captured in the base BARS data used for this report. It would also appear that counties are not accumulating large cash balances as the difference between revenues and expenditures (including capital) are between 3 percent and 4 percent of revenues before taking into account net transfers.

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## EXPENDITURE AND REVENUE COMPARISONS

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## EXPENDITURE AND REVENUE COMPARISONS

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### City Comparisons

The following chart compares revenues and expenditures for cities. Like the previous information for counties, revenues exceeded operating expenditures by approximately \$100 million to \$200 million per year. However, when capital expenditures are considered, all but 1 percent to 4 percent of revenues are accounted for. Total operating and capital expenditures exceeded revenues from 1990 to 1992, the shortfall difference would likely have been made up by cash balances from prior periods.

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## EXPENDITURE AND REVENUE COMPARISONS

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## EXPENDITURE AND REVENUE COMPARISONS

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### **State Comparisons**

The next table and chart show the comparison between revenues and expenditures for the state. Revenues have exceeded operating expenditures in each year except 1993. Comparing revenue with the total capital and operating expenditures generally results in a negative amount. Transfers from bond sales into special revenue funds account for some of this difference; these transfers are not included in the revenue numbers.

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## EXPENDITURE AND REVENUE COMPARISONS

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## EXPENDITURE AND REVENUE COMPARISONS

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### **Summary Comparisons - All Levels of Government**

The following table presents the data from the three previous tables on one page for easier comparisons between county, city, and state government.

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## EXPENDITURE AND REVENUE COMPARISONS

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## EXPENDITURE AND REVENUE COMPARISONS

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### Summary

This section brings together information from the preceding sections on expenditures and revenues. Here revenues are compared with expenditure for the counties, cities, and finally the state. In each of these comparisons revenues exceed expenditures for operating purposes. This occurs because revenue usage is not limited to operating expenditures only, capital projects must also be funded. Although expenditure analysis in this study concentrated on operating expenditures from the governmental funds group, summary information on capital expenditures is available as well. These amounts are added to operating expenditures in this section and combined expenditures are compared against revenues. The results of this analysis generally show that:

- ♦ County revenues exceed combined expenditures in five of the six years.
- ♦ City revenues are less than combined expenditures in the first three years, but exceed combined expenditures in each of the last three years.
- ♦ State revenues are higher than combined expenditures in the first year of the study but fall short of expenditure levels in four of the last five years.

The last component of expenditures and revenue comparisons is consideration of transfer activity. Amounts transferred into the governmental operating fund group are treated as added revenue. Amounts transferred out are treated as increased expenditures. Net transfer activity is determined by summing all transfers in and out and calculating the differences. Net transfers out are assumed to move to capital projects funds to support added capital expenditure activity. Net transfers in are treated as additional revenue sources. Revenue and expenditure comparisons including consideration of net transfer activity yield the following results:

- ♦ Counties transfer funds out in each year of the study and end all but one of the study years with annual revenues within one percent of combined expenditures plus net transfers.
- ♦ Cities had net transfers in during the first three years and net transfers out in the last three years. Differences between revenues and combined expenditures plus transfers range from a low of no difference in 1994 to a high of six percent of revenues in 1991.
- ♦ State government transfers into governmental operating funds consistently exceed transfers out. Differences between revenues and combined expenditures plus net transfers range from a positive six percent of revenues in fiscal year 1990 to a negative four percent of revenues in fiscal year 1993.

Availability of fund balance information for counties and cities would have allowed much more complete analysis of revenue and expenditure dynamics. Both the Work Group and the State

Auditor's Office are anxious to fill in this critical data gap. The Recommendations section of the study outlines activities that can help resolve this problem.

## **Recommendations**

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## RECOMMENDATIONS

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### Actions Needed to Move Beyond This Baseline

#### Work Group

1. **Expand the Work Group to broaden legislative representation.** Efforts by the Work Group to date have been very successful in data verification and establishing meaningful expenditure and revenue categories for state comparison purposes. The more detailed information available in BARS can provide an additional tool to legislative committees for analysis of proposed statutory changes impacting counties and cities. An example of prior legislative uses of the BARS data includes the 1993 “Task Force on City and County Finances Report” prepared to review the criminal justice needs of counties and cities.
2. **Continue the efforts of the Work Group through Fiscal Year 1998.** Use the Work Group’s expertise to provide guidance and oversight in the further development and refinement of data needs on local government finance including the ability to capture and generate information and reports useful to the local government entities.

The Work Group should perform an advisory role in the development and evaluation of system improvements listed below to be undertaken by the State Auditor’s Office. The Work Group can also be effective in assisting the State Auditor’s Office in providing training to local practitioners emphasizing the importance and usefulness of the BARS reports and data. In addition to the continuing effort needed to refine the expenditure and revenue categories used for comparison purposes and working on data verification and correction, the Work Group can provide recommendations as to the specific types of additional data which should be captured (for example, budget, fund balance, and staffing). The Work Group can also act as a resource developing the most useful demographic and stratification comparisons for the county and city data.

3. **Appropriate \$20,000 to the State Auditor’s Office for travel and expenses of the Work Group.** If the Work Group’s efforts outlined above are to continue, meetings on a monthly basis will be required. Given this level of commitment it is reasonable to reimburse participants for some limited travel and expenses. This would also be useful in encouraging the ongoing participation from smaller counties and cities.

#### State Auditor’s Office

1. **Appropriate \$250,000 for BARS staffing enhancements.** Fund two additional non-administrative FTE to carry out data administration responsibilities, editing, enhanced reporting, training, and analysis functions. Once local data has been compiled by the State Auditor’s Office feedback should be provided to the local governments to confirm the validity of the data.

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## RECOMMENDATIONS

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1. **Appropriate \$125,000 to the State Auditor's Office to fund a BARS requirement evaluation as the first step towards needed systems improvements.** Undertake an evaluation of the requirements to support BARS as an information and management system and develop a prototype to present to the Legislature. The prototype should at a minimum demonstrate the ability to be used for data validation, improve the transmission of and accessibility to data, and enhance the reporting flexibility of the current system.
2. **Appropriate \$250,000 to the State Auditor's Office for systems improvements identified by the study evaluation and proposed prototype.** The appropriation should be contingent upon approval by the fiscal committees of the House and Senate during the 1998 Legislative Session.

### Data Improvements

1. **Establish incentives for accurate, timely reporting and penalties for non-reporting.** Appendix D details the non-reporters over the period of the study. Presently there is not disincentive or penalty for not submitting BARS data to the State Auditor's Office. For future detailed analysis and data stratification to provide valid data, it is essential for all local governments to submit accurate and timely data. This recommendation was also made by the Task Force on City and County Finances in their report submitted to the Governor and Legislature in 1993.
2. **Explore the usefulness, costs and benefits of expanding the BARS data reporting requirements to provide more information to policy makers and the public.** Potential additional information might include some or all of the following:
  - ♦ Fund balances which accurately reflect beginning and ending amounts for each calendar year
  - ♦ Budget information to provide more timely and current information
  - ♦ Information from special purpose districts
  - ♦ Capital budget and expenditure data
  - ♦ Personnel and staffing data
  - ♦ Workload information



# Appendices

