Q. What are the sources of revenue for local governments?

A. Local revenue comes from property, sales, and other taxes; charges and fees; and transfers from federal and state governments. Taxes accounted for roughly 40 percent of local general revenue in 2016.

Local governments collected over $1.6 trillion of general revenue in 2016. Revenue from property, sales, and other taxes totaled $677 billion, or 41 percent of general revenue. Intergovernmental transfers accounted for 36 percent of local general revenue in 2016 (figure 1).

**FIGURE 1**

Breakdown of Local Government General Revenue

What are the sources of revenue for local governments?

**INTERGOVERNMENTAL TRANSFERS**
Local governments received 32 percent of their general revenue from state government transfers (including indirect federal funds) and 4 percent directly from the federal government. Local governments include county governments, municipalities, townships, special districts (such as water and sewage authorities), and school districts. Transfers for education programs account for over two-thirds of state government transfers to localities. Meanwhile, housing-program transfers are nearly 40 percent of federal transfers to local governments.

**OWN-SOURCE REVENUE**
Local governments collected $487 billion from property taxes in 2016, or 30 percent of local government general revenue. This was localities’ largest single source of tax revenue. Sales taxes provided local governments $118 billion (7 percent of general revenue) and individual income taxes accounted for $33 billion (2 percent). All other taxes—including corporate income taxes, hotel taxes, and business license taxes—provided $31 billion in revenue (2 percent). Charges and miscellaneous fees, such as water, sewerage, and parking meter fees collected by municipal or county governments, provided $369 billion (23 percent of local general revenue).

**CHANGING SOURCES**
Since 1977, the share of local general revenue from taxes has remained steady at about 40 percent. However, the composition of tax revenue has changed somewhat. The contribution of property taxes to general revenue declined from 34 percent in 1977 to 30 percent in 1979, fell to a low of 27 percent in 2000, then returned to 30 percent in recent years. Meanwhile, revenue from sales taxes steadily increased from 5 percent to 7 percent between 1977 to 2016 (figure 2).

The share from intergovernmental transfers also fluctuated somewhat over time, falling from 43 percent of general revenue in 1977 to 36 percent in 2016. Revenue from charges and fees increased from 15 percent to 23 percent in 1985 and has remained roughly at that level since then (figure 2).

**LONG-TERM REVENUE GROWTH**
Although local government revenue was about the same relative to gross domestic product in 1977 (8.6 percent) and 2016 (8.7 percent), it has fluctuated over the period (figure 3). The percentage fell to a low of 8.0 percent in 1984 and peaked at 9.9 percent in 2009.

Much of the change in local government revenue relative to the economy resulted from increasing and decreasing transfers from federal and state governments. Transfers fell from 1977 through most of the 1980s but increased slowly through the 1990s. This source of revenue is mostly cyclical; it grew sharply during the 2001 and the 2007–09 recessions, receding in both cases as the economy recovered (figure 4).
What are the sources of revenue for local governments?

**FIGURE 2**
Breakdown of Local Government General Revenue by category, fiscal years 1977–2016

**FIGURE 3**
Total Local Government General Revenue Share of national GDP, fiscal years 1977–2016

The State of State (and Local) Tax Policy

What are the sources of revenue for local governments?

**FIGURE 4**

Local Government General Revenue  
By category's share of GDP, fiscal years 1977–2016

- Intergovernmental transfers
- Sales taxes
- Property taxes
- Charges and miscellaneous


**Data Sources**

- US Department of Commerce, Bureau of Economic Analysis. “Gross Domestic Product, Third Quarter 2018 (Second Estimate); Corporate Profits, Third Quarter 2018 (Preliminary Estimate).”

**Further Reading**