February 2025

The County Landscape Project:

County Government Taxes and Revenues

Vision

Healthy, safe and vibrant counties across America.

Mission

Strengthen America's Counties.

About

The National Association of Counties (NACo) strengthens America's counties, serving nearly 38,000 county elected officials and 3.6 million county employees. Founded in 1935, NACo unites county officials to:

- Advocate county priorities in federal policymaking
- Promote exemplary county policies and practices
- Nurture leadership skills and expand knowledge networks
- Optimize county and taxpayer resources and cost savings, and
- Enrich the public understanding of county government.

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The County Landscape Project

Counties are vital to the foundation of our communities, helping shape the places where we live, work and thrive. From maintaining critical infrastructure and delivering essential public services to fostering economic growth and ensuring public safety, county governments play a pivotal role in the daily lives of millions of Americans. Notwithstanding our significance, the complexity and diversity of county governments often go unnoticed. The County Landscape Project brings the nuts and bolts of county governance to the forefront, providing a clear and comprehensive guide to how counties function, govern and serve our residents.

As NACo continues its commitment to strengthen America's counties, we recognize the need for a unified, accessible and authoritative resource that provides a comprehensive guide to our nation's county government system. By developing key insights, data and best practices under a single, cohesive project, we aim to enhance the way county officials, policymakers, federal and philanthropic partners and the public engage with and utilize these valuable resources. Whether examining the **organizational structures, financial frameworks, essential services or intergovernmental roles of counties**, the project serves as a critical reference for understanding county government at its core.

This initiative reflects NACo's dedication to providing clarity in county governance, empowering leaders with actionable insights and fostering collaboration across all levels of government. Whether you are an elected official shaping policy, a researcher exploring county data or a resident seeking to understand the impact of local government, these resources serve as a guide to the essential functions of counties nationwide.

As we move forward, we invite you to explore, engage and utilize the resources from the Project in your work. Counties are the backbone of our nation's governance, and together, we can ensure that our impact is recognized, strengthened and sustained for generations to come.

Matthew D. Chase, CEO/Executive Director

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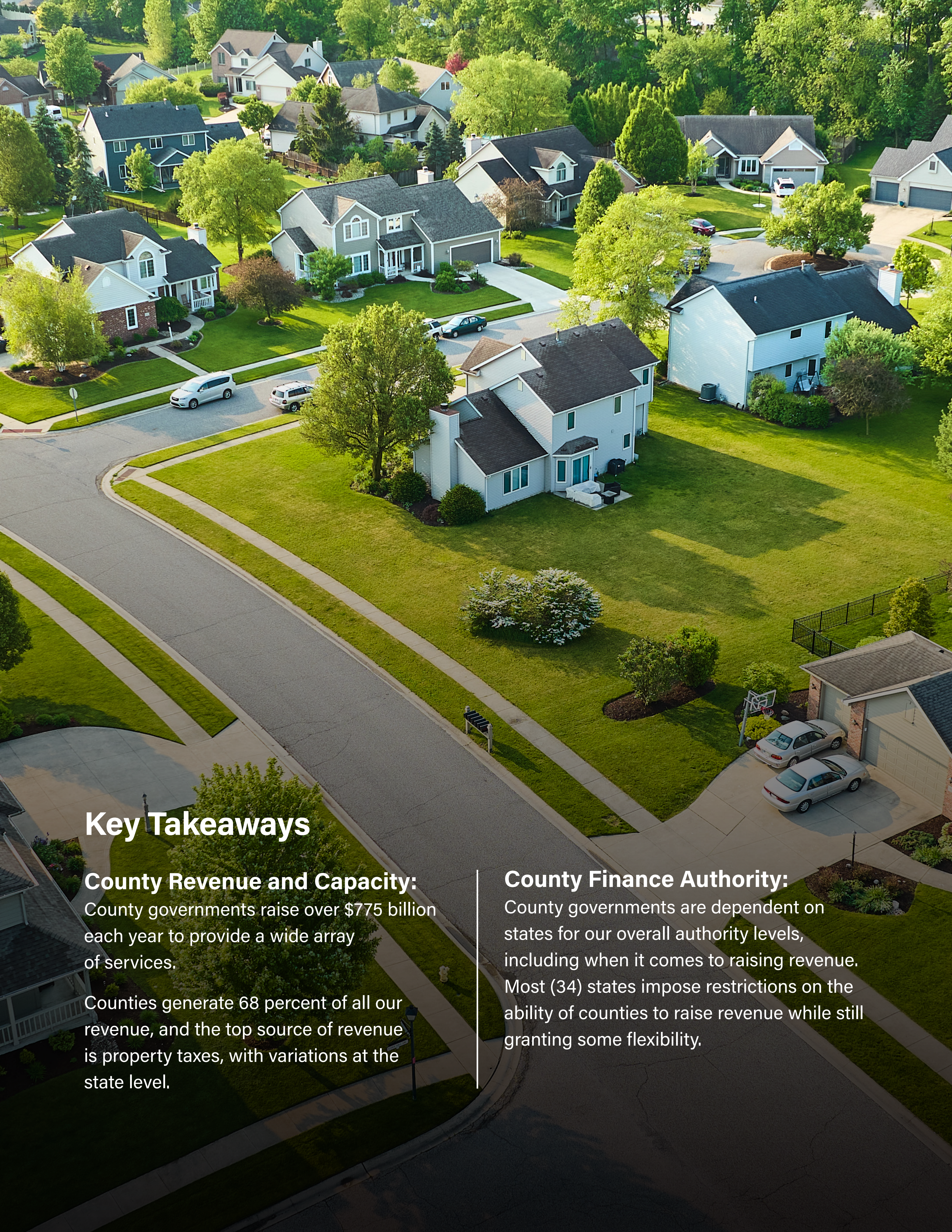
Counties raise over $775 billion each year *to provide a wide array of services to over 300 million county residents throughout the U.S. Operating within the diverse legal frameworks each state imposes to regulate county and municipal revenue generation, county governments generate* ***over two-thirds of our revenue****, whether from local taxes, charges for services or other sources, which we invest in key service areas from public health and human services to justice, public safety and infrastructure.*



Key Takeaways

County Revenue and Capacity:

County governments raise over $775 billion each year to provide a wide array of services.

Counties generate 68 percent of all our revenue, and the top source of revenue is property taxes, with variations at the state level.

County Finance Authority:

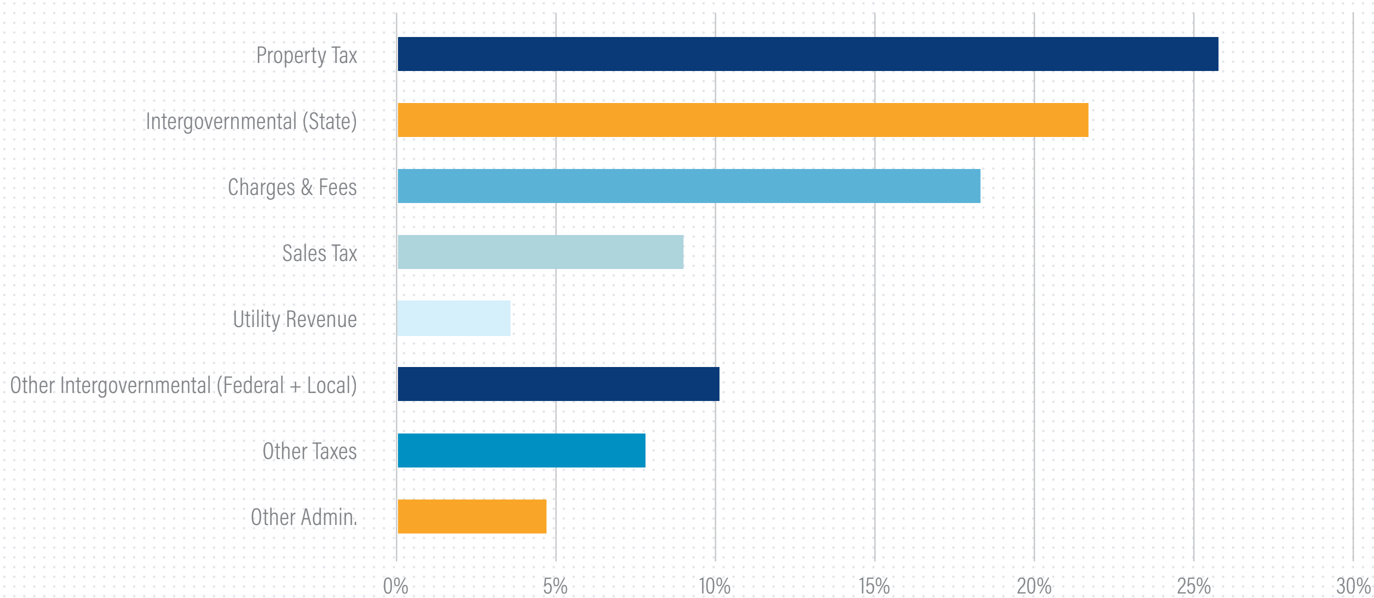
County governments are dependent on states for our overall authority levels, including when it comes to raising revenue. Most (34) states impose restrictions on the ability of counties to raise revenue while still granting some flexibility.

County Revenue and Government Capacity

Each year, **county governments generate over $775 billion to provide a wide array of services to over 300 million county residents across the U.S.** Provided there exists the political will and managerial capacity to implement local policies. Two key capacities form the guardrails for the types of services county governments can provide residents: (1) authority granted by the state; and (2) the county's capacity to raise needed revenue. State laws provide the bounds within which a county government operates given its authority level – that which the county can potentially do. But within those bounds, counties can only actually accomplish what they are able to fund. Thus, limitations on county governments come in two forms: (1) legal (statutory or constitutional restrictions) and (2) fiscal (limitations on counties ability to raise revenue). Within those two types of limitations, county governments must operate and determine how to best serve our residents. This primer focuses on county finances alongside their limitations as determined by state laws, and, especially, as these revenues pertain to county authority and service provision.

PROPERTY TAXES PROVIDE TOP SOURCE OF COUNTY REVENUE

Breakdown of Total County Revenue



Source: *NACo Analysis of U.S. Census Bureau - 2022 Census of Individual Governments: Finance*

Top Revenue Sources: How County Governments Are Funded

The large majority of the funding that counties use to provide services is generated by the county government itself, sourcing taxes and fees from residents and businesses. County governments generate 68 percent of all county revenue. About one third (32 percent) comes from other governmental entities, namely federal (8 percent) and state (22 percent) governments. Each year, counties generate $529 billion of revenue for residents and receive an additional $247 billion in intergovernmental revenue. Thus, counties are stewards of $776 billion of taxpayer dollars in any given year.

Overall, the top source of revenue for county governments is property taxes, which provides counties with $200 billion of revenue each year, or one third (38 percent) of all county-generated revenue. Tax revenue as a whole provides almost two-thirds (63 percent) of all county-generated revenue. Sales taxes are the second largest tax category, providing $70 billion (13 percent of county-generated revenue).

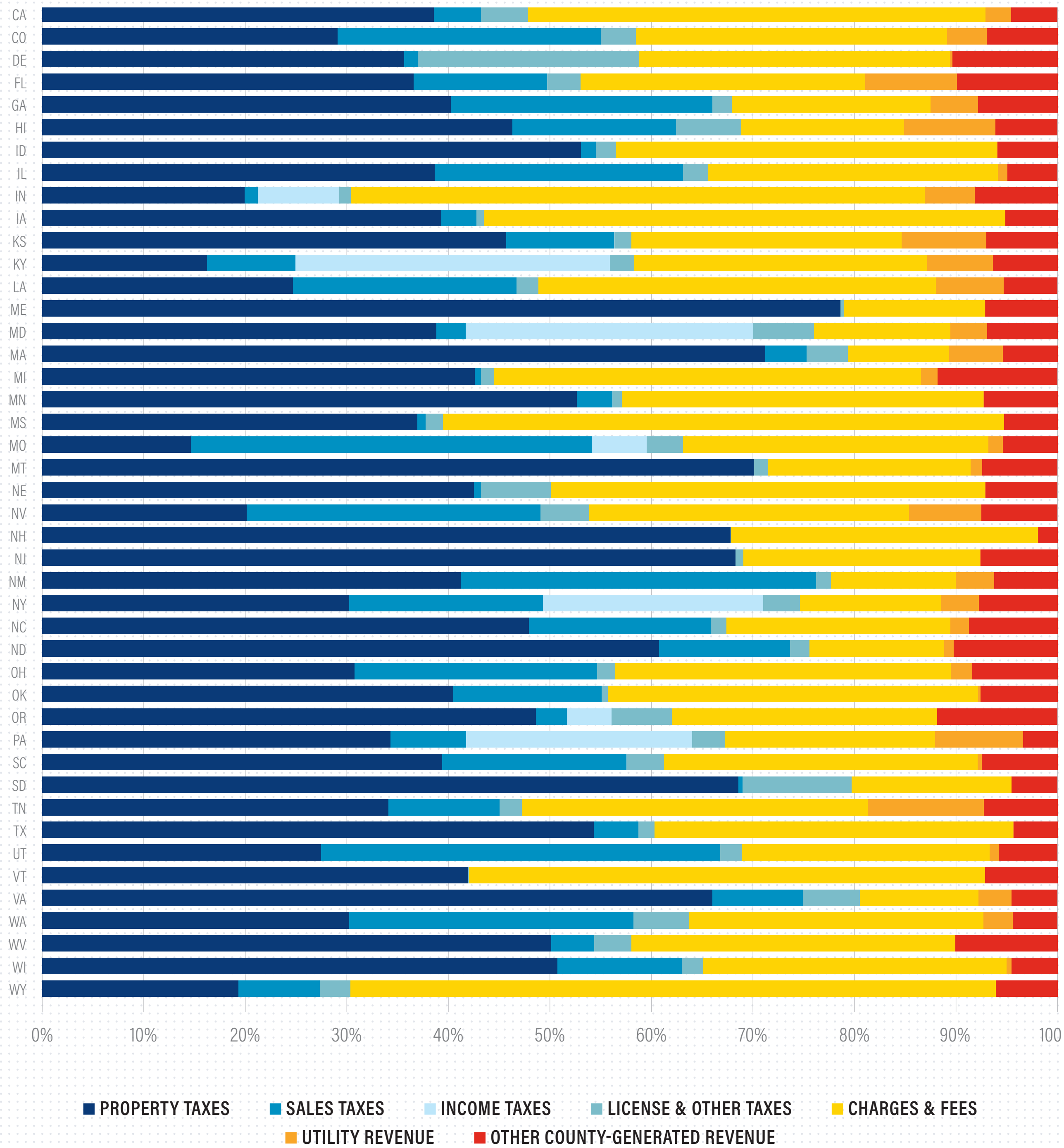
The top source of revenue for county governments is property taxes.

Tax revenue is especially important to county governments because it mostly goes into county general funds, allowing for the most flexibility in investing the funding back into the community.

Charges and fees comprise the second largest category of county revenues, providing $142 billion, or one quarter (27 percent) of county-generated revenue. These revenues, however, generally do not provide any flexibility to the local government, but are rather a "dollar in, dollar out" category of revenue which encompasses funding that goes directly to provide a specific service or to reimburse the government for a service already provided. Some common examples include court and recording fees, public library charges, parks and recreation charges (including camping areas, swimming pools, museums and other facilities operated by the county), highway tolls, public hospital charges and revenue associated with public housing projects. These types of charges come directly from a specific government service and go to supporting that service directly.

COUNTY REVENUE STRUCTURE IS DIVERSE

County-Generated Revenue Breakdown by State



Source: *NACo Analysis of U.S. Census Bureau - 2022 Census of Individual Governments: Finance*
Note: *"County-generated revenue" excludes intergovernmental revenue from federal, state and other local governments.*

In 33 states, property taxes are the top source of county-generated revenue for counties, though all other states have property tax revenue in the top four county revenue sources. In 12 states (Arkansas, California, Colorado, Indiana, Iowa, Louisiana, Mississippi, Nebraska, Ohio, Utah, Vermont, Wyoming), property taxes are the second top county-generated revenue source (behind sales taxes or charges and fees), and the remaining three states (Kentucky, Missouri, Nevada) have property taxes as counties' third highest county-generated source of revenue (sales taxes take precedence in Missouri and Nevada, and income taxes in Kentucky).

> *Property taxes are the top revenue source for counties in aggregate, but more variation exists at the state level.*

For the states which do not have property taxes as the top source of county revenue, charges and fees are the top county-generated revenue source in 11 states (California, Colorado, Indiana, Iowa, Louisiana, Mississippi, Nebraska, Nevada, Ohio, Vermont, Wyoming), sales taxes are the top revenue source in three states (Arkansas, Missouri, Utah) and income taxes provide the top county-generated revenue source in Kentucky. In four states (Alabama, Georgia, Hawaii, New Mexico), sales taxes are the second highest county revenue source after property taxes. Eighteen (18) states, however, have intergovernmental revenue (from federal, state and local sources) as the top county revenue source, over any source of county-generated revenue.

County Finance Authority: How Counties are Permitted to Raise Revenue

County governments are dependent on states for our overall authority levels, including when it comes to raising revenue. Generally, counties under Home Rule have much more flexibility in raising revenue than those under Dillon's Rule, though this is not the case in every state. Most states permit county governments some amount of flexibility over our ability to raise revenue, though some states impose more restrictions while others grant more authority. Eight states in particular (Alabama, Alaska, Georgia, Hawaii, Kansas, Maryland, New York, Tennessee) grant counties additional flexibility in raising revenue compared to other states. Georgia, Hawaii and Tennessee do not impose any restrictions on county property taxes, thus allowing counties to adjust property tax revenue according to the needs of residents. Alaska allows first- and second-class boroughs to impose a sales tax without any restriction, though voter approval is required. Alabama, too, allows counties to implement a local sales tax without any state-level restrictions. And Maryland permits counties to levy an income tax on top of minimally-restricted property taxes and numerous other tax options, including a hotel/motel tax, food and beverage tax (in resort areas), admissions and amusement tax, coal tax and property transfer tax.

On the other hand, in six states (Delaware, Maine, Massachusetts, New Hampshire, New Jersey, Vermont), counties are severely restricted in their ability to raise revenue. In all of these states except Delaware, counties are not permitted to levy their own property taxes, but must levy them through municipalities. In all six of these states, property tax revenue is severely limited and in two states (New Hampshire, Vermont), is the only source of revenue for counties. No county in these states can levy a sales, income, mineral, gas, hotel/motel or alcohol tax, though some of these states permit another one or two specific revenue streams, such as a real estate transfer tax (Delaware) or a recording fee (Massachusetts). Maine counties collect the state's real estate transfer tax and retain a portion of it as their only other source of revenue. And New Jersey permits counties to levy a personal property tax on petroleum refineries and on telecommunication companies.

Most (34) states impose restrictions on the ability of counties to raise revenue while still granting some flexibility. In almost half of these states (15 states), however, the restrictions leave counties with only minimal flexibility. These restrictions include rate or levy limits on property and sales taxes, limits on increases in property assessments and limits on what other taxes county governments are permitted to implement (all discussed in further detail below).

COUNTY GOVERNMENT PROPERTY AND SALES TAX AUTHORITY, BY STATE

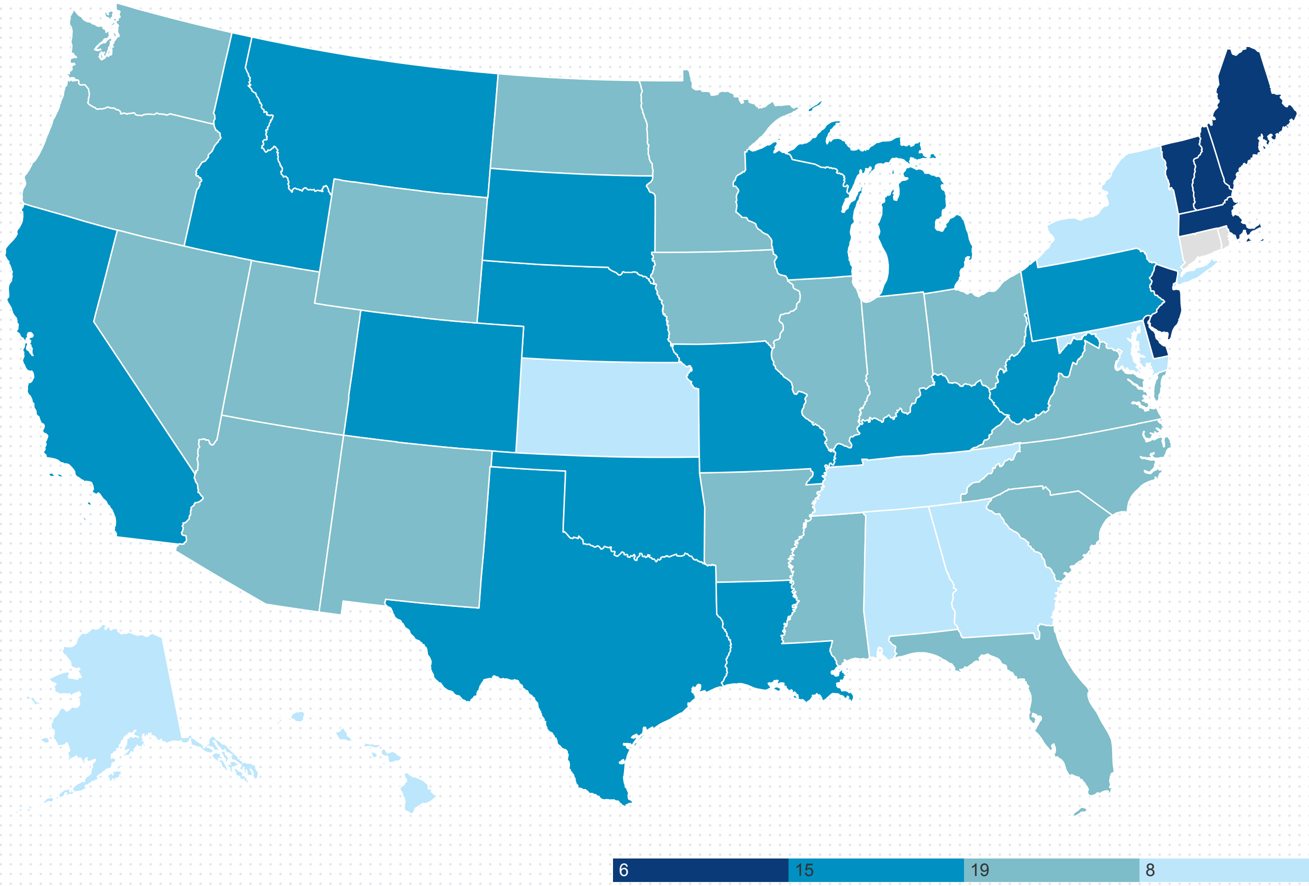
STATE	REAL PROPERTY TAX	PERSONAL PROPERTY TAX	GENERAL SALES TAX	SPECIFIC SALES TAXES
Ala.	Some Restrictions	Some Restrictions	Unrestricted	Unrestricted
Alaska	Some Restrictions	Some Restrictions	Unrestricted	Unrestricted
Ariz.	Highly Restricted	Some Restrictions	Some Restrictions	Some Restrictions
Ark.	Highly Restricted	Some Restrictions	Some Restrictions	Some Restrictions
Calif.	Highly Restricted	Highly Restricted	Some Restrictions	No
Colo.	Highly Restricted	Highly Restricted	No	Highly Restricted
Del.	Highly Restricted	No	No	No
Fla.	Some Restrictions	Some Restrictions	No	Highly Restricted
Ga.	Unrestricted	Unrestricted	No	Highly Restricted
Hawaii	Unrestricted	No	No	No
Idaho	Some Restrictions	Highly Restricted	No	No
Ill.	Highly Restricted	No	Some Restrictions	Highly Restricted
Ind.	Some Restrictions	Some Restrictions	No	Highly Restricted
Iowa	Some Restrictions	No	Some Restrictions	No
Kan.	Unrestricted	Unrestricted	Some Restrictions	Highly Restricted
Ky.	Highly Restricted	Some Restrictions	No	No
La.	Highly Restricted	Highly Restricted	Some Restrictions	Some Restrictions
Maine	Not Directly (through municipalities)	Highly Restricted	No	No
Md.	Unrestricted	Some Restrictions	No	No
Mass.	Not Directly (through municipalities)	Highly Restricted	No	No
Mich.	Highly Restricted	Highly Restricted	No	No
Minn.	Unrestricted	Unrestricted	Highly Restricted	Highly Restricted
Miss.	Some Restrictions	Some Restrictions	No	No
Mo.	Highly Restricted	Highly Restricted	Some Restrictions	Some Restrictions
Mont.	Highly Restricted	Some Restrictions	No	No
Neb.	Some Restrictions	Some Restrictions	Some Restrictions	No
Nev.	Some Restrictions	Some Restrictions	No	Some Restrictions
N.H.	Not Directly (through municipalities)	No	No	No
N.J.	Not Directly (through municipalities)	No	No	No
N.M.	Highly Restricted	Highly Restricted	Some Restrictions	Some Restrictions
N.Y.	Some Restrictions	No	Some Restrictions	No
N.C.	Some Restrictions	Some Restrictions	Highly Restricted	No
N.D.	Some Restrictions	No	Some Restrictions	Some Restrictions
Ohio	Some Restrictions	No	Some Restrictions	Some Restrictions
Okla.	Some Restrictions	Some Restrictions	Some Restrictions	Some Restrictions
Ore.	Some Restrictions	Some Restrictions	No	No
Pa.	Some Restrictions	No	No	No
S.C.	Highly Restricted	Highly Restricted	Some Restrictions	Some Restrictions
S.D.	Some Restrictions	No	No	No
Tenn.	Unrestricted	Highly Restricted	Some Restrictions	No
Texas	Highly Restricted	Highly Restricted	Highly Restricted	No
Utah	Highly Restricted	Highly Restricted	Some Restrictions	Some Restrictions
Vt.	Not Directly (through municipalities)	Highly Restricted	No	No
Va.	Unrestricted	Unrestricted	Some Restrictions	No
Wash.	Highly Restricted	Highly Restricted	Some Restrictions	Some Restrictions
W. Va.	Some Restrictions	Some Restrictions	No	No
Wis.	Highly Restricted	Highly Restricted	Highly Restricted	No
Wyo.	Some Restrictions	Highly Restricted	Some Restrictions	Some Restrictions

Unrestricted · Some Restrictions · Highly Restricted · Not Directly (through municipalities) · No

Source: *NACo Research, 2022*

21 STATES IMPOSE SUBSTANTIAL RESTRICTIONS ON COUNTY FINANCE AUTHORITY

County Finance Authority, by State



Source: *NACo Research, 2022*

- **No Flexibility:** Counties in these states have almost no ability to change their revenue structure, or to increase funding if needed for additional services. Most cannot levy their own property taxes, but must rely on an allocation from municipalities.
- **Minimal Flexibility:** Counties in these states may have some, minimal ability to change their revenue structure or increase funding, though their ability to do so is highly restricted by the state. These counties may only have one primary source of revenue (generally, property taxes).
- **Some Flexibility:** Counties in these states have a moderate flexibility in determining their revenue structure or increasing funding as needed. Often, these counties may levy different types of taxes (e.g., sales taxes), but all are restricted by the state.
- **Very Flexible:** Counties in these states have broad jurisdiction over their local revenue structures and can increase funding without many limitations from the state. Most of these counties have a wide variety of funding sources and/or nearly complete authority over property taxes.

Key Takeaways

Property Taxes: Property taxes are the most important source of revenue for county governments, providing over $200 billion each year. Forty-four (44) states place limitations on the ability of counties to raise revenue through property taxes.

Sales Taxes: Local sales taxes provide counties with $70 billion annually. Thirty-one (31) states allow counties to implement a local sales tax, though with restrictions.

Property Taxes: A Stable Source of Revenue for Counties

Property taxes are the most important source of revenue for county governments, providing over $200 billion each year, or one quarter (26 percent) of all county revenue. Nearly every county (99 percent) receives funding from property taxes. More importantly, property taxes provide one of the most stable sources of revenue. While income, sales and other taxes may respond more quickly to the ebbs and flows of the national economy, property values tend to remain more stable and change less quickly than income levels or consumer spending. The economic shutdowns of the COVID-19 pandemic demonstrated this stability: local governments that relied on sales or income taxes experienced higher revenue losses than those that relied on property taxes.*

Property taxes can be enacted for general or specific purposes. For example, in Arkansas, counties may implement a property tax rate of up to 0.5 percent for the county general purpose fund. But Arkansas counties may also implement a 0.5 percent property tax rate for capital improvements, 0.5 percent for libraries and 0.3 percent for roads and bridges, resulting in a total maximum property tax rate of 1.8 percent for general and special purposes. A county in North Dakota may implement a 6 percent property tax for its general funds, but also 2 percent for a social services fund, 1 percent for a road fund (3 percent with a vote) and 1 percent for a capital improvement fund (2 percent with a vote). And some state limits on property taxes include portions set aside for schools, such as in Nevada, where counties may enact a 3.64 percent property tax, including 0.75 percent for schools.

Property Tax Limits

Despite the importance of property tax revenue for county government services and operations, **44 states place limitations on the ability of counties to raise revenue through property taxes, and in 22 states, these limitations are highly restricting.** Some states allow counties to exceed certain limits with voter approval (e.g., Colorado, Illinois, Kansas, Montana, Virginia). In five states (Maine, Massachusetts, New Hampshire, New Jersey, Vermont), counties cannot collect property taxes directly, but must rely on municipalities to do so and provide an adequate allocation.

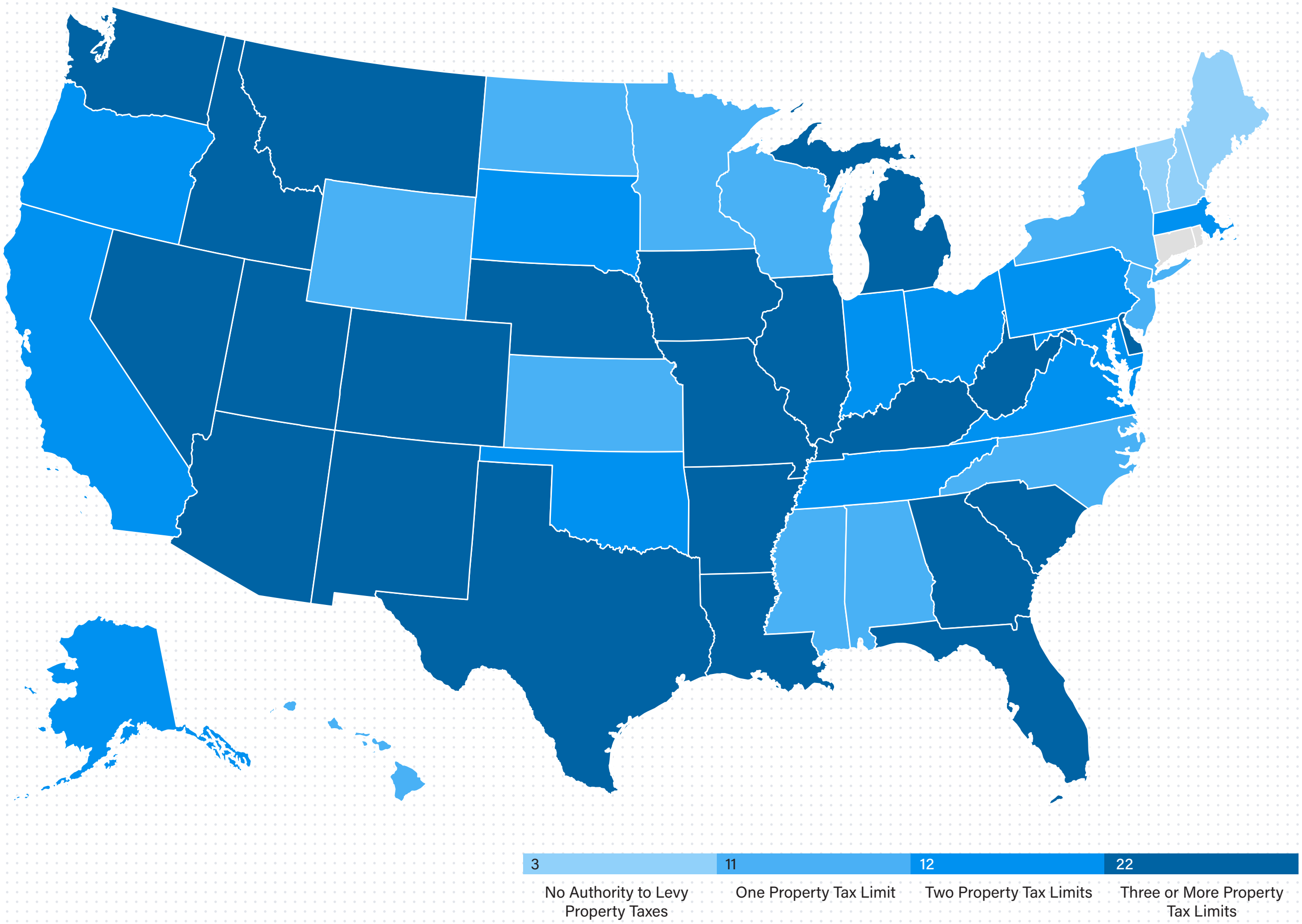
Rate Limit

Property tax limitations can take on various forms. **Thirty-two (32) states impose a rate limit, setting a specific rate which county property taxes cannot exceed.** These rate limits range from 0.25 percent (Washington) to 6 percent (North Dakota) of the assessed property value, though most fall between 0.5 percent and 3 percent. The median rate limit is 1.2 percent. South Carolina has potentially the most restricting rate limit: counties are not permitted to raise the property tax rate above the previous year's rate (after inflation and population increases are taken into account). Moreover, certain states (e.g., Indiana, Michigan, Nebraska, Washington) implement limits on the combined property tax rate on any given property (which includes county, municipal, school district and special district rates), further complicating county authority over property tax revenue. The specific impact of these rate limits is difficult to interpret, however, due to variations in how property values are assessed. In

* *See NACo, "Comprehensive Analysis of COVID-19's Impact On County Finances and Implications for the U.S. Economy," (July 2020).*

22 STATES HIGHLY RESTRICT COUNTY PROPERTY TAX AUTHORITY

State Property Tax Limitations for Counties



Source: *NACo interviews with state associations, as well as county and state officials; NACo analysis of state legislation. Updated as of 2017.*
Note: *Property tax limitations are state-imposed limitations on the ability of counties to raise property tax revenue. These property tax limitations encompass the following manifestations: (1) rate limits, (2) levy limits, (3) assessment limits and (4) tax freezes and rollbacks.*

some states, property is assessed at 100 percent market value for taxing purposes, while in other states, property is assessed at a lower percentage. Furthermore, some of these rate limits include both the rate for school districts or other special districts alongside the rate for the county's general fund.

Certain areas or types of properties may have different rates, as well. Indiana has an overall property tax cap of 1 percent on residential properties, 2 percent on rental and farmland properties and 3 percent on all other properties. In Iowa, counties can implement a tax of up to 0.395 percent in unincorporated areas, but only 0.35 percent in incorporated cities or towns. Finally, some states have different limits for differently-sized counties. Missouri counties are subject to a 0.5 percent rate limit if they have less than $300 million in assessed property value within the county – otherwise that rate limit is lowered to 0.35 percent. In Utah, the rate limit is shifted to favor larger counties: those with more than $100 million in assessed property value can enact a 0.36 percent property tax, while those with less are limited to 0.32 percent.

Levy Limit

Another common type of property tax limit, found in 31 states, is a levy limit. **Levy limits restrict the allowable increases in aggregate property tax revenues generated by counties annually.** Eight states (Colorado, Kansas, Michigan, Missouri, Montana, New Jersey, New York, South Dakota) base their levy limits on the inflation rate, so counties cannot increase property tax revenues above the previous year's revenue plus inflation. Some of these states (Colorado, New Jersey, New York, South Dakota) restrict counties even further, with property tax revenue increases limited to the lesser of a certain rate or inflation. And although Montana calls its limit a rate limit, the rate is calculated so that property tax revenues cannot increase more than the previous year's revenue plus only half of inflation. Wisconsin has another particularly restricting levy limit: counties can only increase property taxes in accordance with any new construction.

> *Thirty-eight (38) states permit counties to tax personal property.*

Assessment Limit

The third notable property restriction is an **assessment limit, where states limit the ability of counties to increase assessed property values.** Thirteen (13) states implement assessment limits. Arizona does not permit assessed property values to increase by more than 5 percent, and neither does Michigan. South Carolina limits assessed property values from increasing by more than 15 percent over 5 years (3 percent each year). And in Alaska, uniquely, the total assessed property value in a borough cannot exceed 225 percent of the average per capita market property value in the state multiplied by the borough's population.

Other Limits

Rate limits, levy limits and assessment limits are the most common property tax limitations imposed by states on counties, but some states have other, unique limitations. Illinois counties are subject to a levy limit and an overall rate restriction of 0.75 percent, but also to a third, separate limit where the property tax rate cannot increase by more than 5 percent without voter approval. In Alaska, the total property tax revenue collected each year cannot exceed $1,500 per person. And in New Hampshire, where counties are not permitted to collect property taxes but must rely on municipalities, there are no formal limits, but any property tax levy requires state approval. Only counties in five states (Georgia, Hawaii, Minnesota, New Hampshire, Tennessee) are not subject to any explicit state limits on county property tax revenues.

Personal Property Taxes

Property taxes can be implemented on real property (e.g., land and structure) and – in some states – on personal property. Personal property can be tangible (e.g., automobiles and boats) or intangible (e.g., bank accounts, stocks and bonds). **Currently, 38 states permit counties to tax personal property,** though New Jersey counties may only enact personal property taxes on petroleum refineries and telecommunications businesses. Some states, like Florida, Missouri, Montana, Nevada and Oklahoma, only allow counties to tax tangible personal property (though the state can tax intangible personal property). Other states, like Alabama, Florida, Maryland, Michigan, New Jersey, New Mexico, Tennessee and Utah, restrict personal property taxes to certain items or allow numerous exemptions – oftentimes focusing on the personal property of businesses. For example, New Mexico counties can tax personal property used for business purposes, mineral extraction, fuel distribution or certain utilities, as well as manufactured homes. Florida, on the other hand, exempts mobile homes, motor vehicles, airplanes, boats and trailers from personal property taxes.

COMMON PROPERTY TAX LIMITS

Rate Limit (32 states): A specific rate which county property taxes cannot exceed.

Levy Limit (31 states): A limit on the allowable increases in aggregate property tax revenues generated by counties annually.

Assessment Limit (13 states): A limit on the ability of counties to increase assessed property values.

COUNTY GOVERNMENT PROPERTY AND SALES TAX RATE LIMITS, BY STATE

STATE	PROPERTY TAX RATE LIMIT	SALES TAX RATE LIMIT
Ala.	0.50%	No Limit
Alaska	3.00%	No Limit
Ariz.	1.00%	0.50%
Ark.	1.80%	7.00%
Calif.	1.00%	3.00%
Colo.	No Limit	✕
Del.	0.50%; No Limit	✕
Fla.	2.00%	✕
Ga.	No Limit	✕
Hawaii	No Limit	✕
Idaho	No Limit	✕
Ill.	0.75%	2.00%
Ind.	3.00%	✕
Iowa	0.40%	1.00%
Kan.	No Limit	2.00%
Ky.	0.50%	✕
La.	0.40%	5.00%
Maine	No Limit	✕
Md.	No Limit	✕
Mass.	2.50%	✕
Mich.	5.00%	✕
Minn.	No Limit	No Limit
Miss.	No Limit	✕
Mo.	0.50%	0.50%
Mont.	No Limit	✕
Neb.	0.50%	1.50%
Nev.	3.64%	1.30%
N.H.	No Limit	✕
N.J.	No Limit	✕
N.M.	1.19%	1.25%
N.Y.	No Limit	3.00%
N.C.	1.50%	2.25%
N.D.	6.00%	No Limit
Ohio	1.00%	1.50%
Okla.	1.00%	2.00%
Ore.	1.50%	✕
Pa.	2.50%	✕
S.C.	Previous Year	2.00%
S.D.	1.20%	✕
Tenn.	No Limit	2.75%
Texas	1.25%	1.00%
Utah	0.36%	1.25%
Vt.	5.00%	✕
Va.	No Limit	1.00%
Wash.	0.25%	1.00%
W. Va.	0.38%	✕
Wis.	No Limit	0.50%
Wyo.	1.20%	3.00%

✕ No Sales Tax Permitted

Source: *NACo Research, 2022*

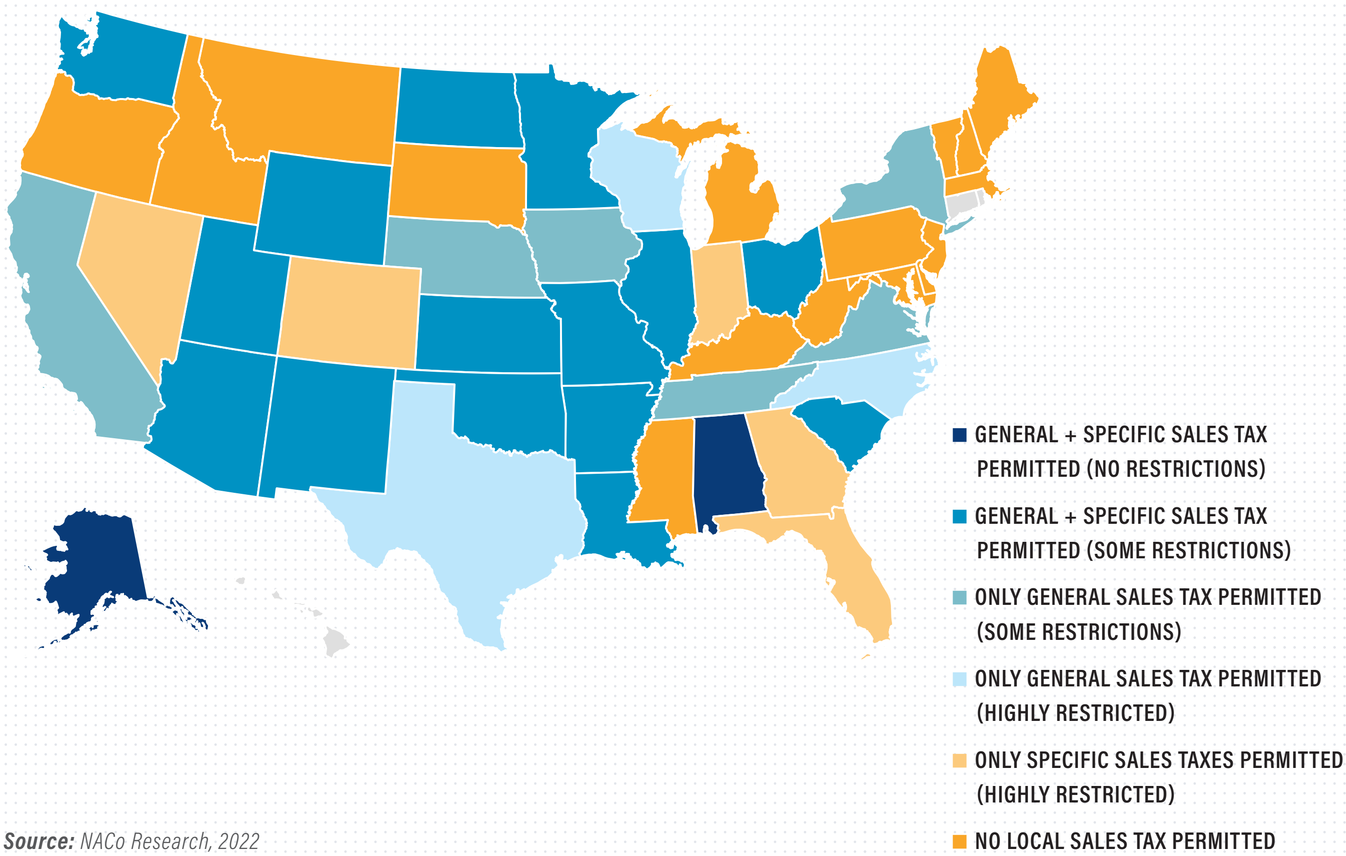
Sales Taxes: A Variable Revenue Source for Counties in 31 States

After property taxes, local sales taxes are the next most important source of tax revenue for counties, providing $70 billion annually, or 9 percent of total county revenue.

Thirty-one (31) states allow counties to implement some kind of local sales tax. Like property taxes, sales taxes can be enacted for general or specific purposes. Unlike property taxes, states tend to restrict sales tax revenues more than property tax revenue, sometimes only allowing sales tax revenue to be levied for specific purposes. Nine states allow only general sales taxes, five states allow only special purpose or specific sales taxes and the remaining 17 states allow both general and specific sales taxes. Arizona allows counties to collect general sales taxes as well as multiple special purpose sales taxes (e.g., transportation, jails and public health). Other states are more restrictive, like Colorado, which only allows counties to collect a sales tax for public safety improvements. Kansas, too, only allows one special purpose county sales tax (health care services), and Minnesota only allows counties to levy a sales tax for specific transportation projects.

31 STATES PERMIT SOME FORM OF COUNTY SALES TAX, MOST WITH RESTRICTIONS

County Sales Tax Authority, by State



Source: *NACo Research, 2022*

Sales Tax Rate Limits

Of the 26 states that permit counties to levy a general sales tax, all but four (Alabama, Alaska, Minnesota, North Dakota) have a specific rate limit. Minnesota limits county sales taxes by making the process to implement one difficult: approval from the board, voters and the state is required. And only Home Rule counties in North Dakota are permitted to levy a sales tax. Alabama counties and Alaska boroughs are the only counties with full flexibility to implement sales taxes without restrictions. For states with a specific rate limit, the average general purpose rate limit is 1.55 percent, though for counties in many states, this rate limit can be exceeded with special purpose sales taxes.

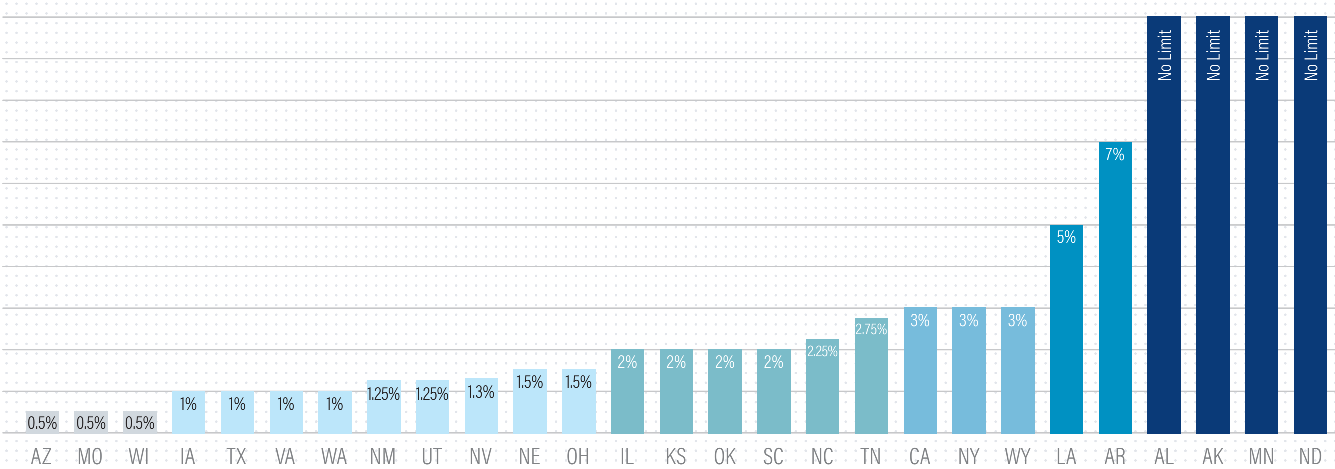
Other Sales Tax Limits

Arizona, Missouri and Wisconsin have the strictest rate limits (0.5 percent), while California and New York have the most flexible general purpose rate limits (3 percent). In Arkansas, the sales tax rate could theoretically be as high as 7 percent, accounting for all the special purposes sales tax options, but each sales tax is limited to 2 percent, and no county levies a sales tax above 3 percent. Tennessee places a particularly unique limit on county sales tax revenue: the sales tax rate (up to 2.75 percent) only applies to the first $1,600 of any purchase, meaning the maximum tax collected on any one transaction is $44. New Mexico is another unique state in that counties cannot implement sales taxes, but rather implement excise taxes on gross receipts of a person engaging in business in the county. In other words, rather than the customer paying the sales tax upfront, the business pays the tax later. Of all the states, however, Texas and Wisconsin are the most restrictive states, because sales taxes can only be implemented for the purpose of reducing property taxes, meaning counties cannot use sales taxes to raise additional revenue.

Alongside local sales tax revenue, counties also benefit from state sales taxes. At least 10 states (California, Florida, Idaho, Iowa, Michigan, Mississippi, Nevada, North Dakota, Virginia, Wyoming) share a portion of the state sales tax with counties.

ALL BUT FOUR STATES SPECIFY A RATE LIMIT FOR COUNTY GENERAL SALES TAXES

County Sales Tax Rate Limits by State



Source: *NACo Research, 2022*

Key Takeaways

Other Taxes: Counties utilize numerous other sources of tax revenue, including income taxes, taxes on short-term rentals, gas taxes, mineral taxes and real estate transfer taxes.

Other Revenue Sources: Counties rely on other revenue sources to reduce the local tax burden, including **charges and fees** for certain services ($142 billion) and **debt financing** for large capital investments and disaster recovery. Intergovernmental revenue from the state and federal government also plays a important role, amounting to **$247 billion** each year.

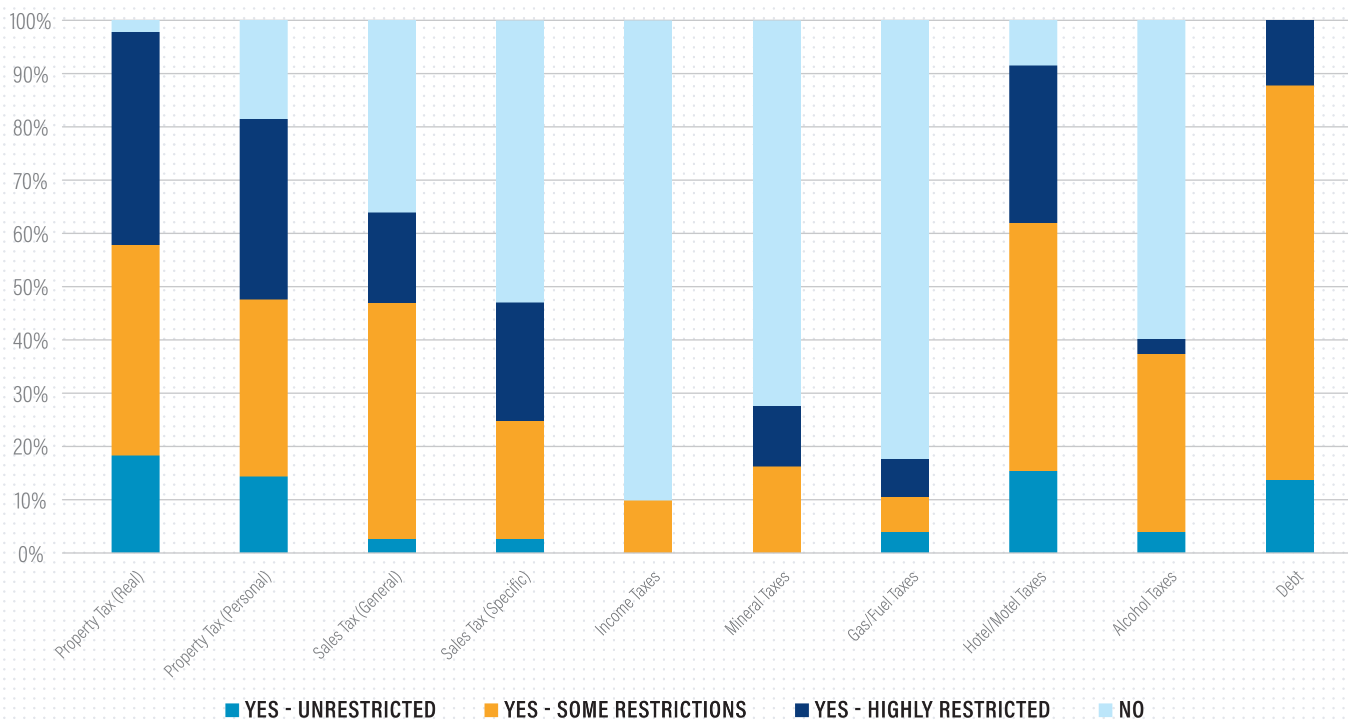
Other Taxes: A Wide Variety Across States

Local Income Taxes

Although property and sales taxes are the most common taxes counties are permitted to levy, counties also rely on a variety of other taxes for revenue. **Four states (Arkansas, Indiana, Kentucky and Maryland) allow counties to implement a local income tax,** though no Arkansas county has done so. A few large counties (or county equivalents) across the nation are individually permitted to levy a local income tax, too (District of Columbia; St. Louis City, Mo.; New York City, N.Y.; Multnomah County, Ore.; Philadelphia, Pa.). Local income taxes are the top source of county-generated revenue for Kentucky counties, the second top source for Maryland counties (behind property taxes) and the fourth top revenue source for Indiana counties. Kentucky counties are limited to a 1 percent income tax (1.25 percent for the two largest counties), and Maryland counties are limited to a 3.2 percent rate. In Indiana, only 27 of the state's 92 counties received local income tax revenue, so income taxes made up only 4 percent of total county revenue in the state in 2017. Indiana limits the rate to 2.5 percent (2.75 percent for Marion County), which includes a 1.25 percent property tax relief rate, an expenditure rate (for economic development, public safety or legal purposes) and any special purposes rates.

LOCAL HOTEL-MOTEL TAXES ARE PERMITTED UNDER MOST STATE STATUTES

County Finance Authority *(Breakdown by share of counties)*



Notes: *The above chart depicts the total percent of all counties that fall into each subcategory. The total number of counties was calculated based on overall state authority in these areas, with an understanding that there may be some slight discrepencies due to variations within the states themselves.*
Source: *NACo Research, 2022*

Taxes on Short-Term Rentals

Another common county tax is a tax on short-term rentals (also known as a hotel/motel tax or a lodging tax). **Thirty-eight (38) states permit counties to tax short-term rentals,** though all but six of these states place restrictions on the tax. Indiana does not place formal restrictions, but the state legislature must approve any local hotel/motel tax. At least 27 states place rate limits on the tax, ranging from 2 percent to 7 percent. Furthermore, at least 12 states restrict the purposes for which lodging tax revenues may be used – generally, for tourism or economic development purposes. Ohio permits counties to levy a hotel/motel tax up to 3 percent, but the counties must use the revenue to support convention centers and visitors' bureaus. Arizona has a set of specific restrictions: the state only permits counties with between 500,000 and 2.5 million residents to levy a lodging tax, and only in unincorporated areas (thus, only Pima County may levy this tax currently).

Fuel Taxes

Alongside taxes on short-term rentals, **12 states permit counties to levy a tax on gasoline and motor fuel.** In Illinois, Maryland and Mississippi, this tax is only available to certain counties. Other states (like Florida, Nevada, New Mexico and Washington) impose rates limits on counties. Florida and New Mexico only permit counties to use this revenue for transportation purposes. Despite limitations on levying local gas taxes, at least 24 states share a portion of the state gas tax with counties. Eleven (11) states permit counties to levy a tax on motor vehicles (or a wheel tax, in some states), and some permit a tax or fees on motor vehicle licenses and registrations.

Other Taxes

Five states (Alaska, Kentucky, Pennsylvania, Tennessee, Virginia) permit counties to tax minerals separately, and another three states (Illinois, Indiana, Texas) allow counties to tax minerals through property taxes. Fifteen (15) states allow counties to specifically tax alcohol in some way, whether through a sales tax, food and beverage tax or a business permit fee to sell alcohol. Seven states (Delaware, Illinois, Kentucky, Maryland, Ohio, Virginia, Wisconsin) permit counties to levy a real estate transfer tax, and counties in Maine collect the state real estate transfer tax and retain 10 percent of the revenue.

Other unique county taxes exist, including:

- a poll tax in Alabama
- a parks tax in Arizona
- a capitation or head tax in Delaware and Pennsylvania
- an insurance premium tax in Georgia and Kentucky
- a tax on replacement cars provided by insurance companies in Illinois
- a cigarette tax in Missouri and Ohio
- a documentary stamp tax in Nebraska
- an animal tax in North Carolina
- amusement or public entertainment taxes in three states (Louisiana, Maryland, Missouri)
- rental car taxes in three states (Georgia, North Carolina, Utah)

States restrict many of these taxes with rate limits, special purposes and/or other restrictions, resulting in varying impacts to county budgets. Although much depends on each individual state, in general, Home Rule counties have much more flexibility than Dillon's Rule counties in raising revenue through various taxes.

Other Revenue Sources: How Counties Fill the Financial Gap

Tax revenues provide the most flexible source of funding for county governments, since counties can deposit much of these revenues into the general fund and direct them toward local needs. But given the breadth of services counties provide (whether mandated or voluntary), alongside the numerous state restrictions on tax revenue, counties must also rely on other revenue sources, including charges and fees for services, debt financing and intergovernmental revenue from state and federal governments.

Charges and Fees

Each year, counties generate $142 billion in revenue from charges and fees for services, which comprise over one quarter (27 percent) of all county-generated revenue. Charges and fees differ from tax revenue in that they are directly tied to a government service, or the sale of a product connected to government activities. Rather than add to the county general fund, **charges and fees are an inflexible, "dollar in, dollar out" source of revenue that allow counties to provide a specific service or commodity by reimbursing the county for providing it.** Though inflexible in their use, counties may use charges and fees to pay for certain services that would otherwise need tax revenue, thus freeing up general fund tax revenue for other purposes and providing additional flexibility in the aggregate. Charges and fees also include income from any government enterprises - if so, the county would typically record the fees in an enterprise fund, which would show all the costs the fees are meant to offset. For other types of fees, this connection to the costs is not always as easy to understand; the amounts recorded for all charges and fees do not account for the cost to produce or buy the commodities or services sold (they are not showing "net revenues" for the county). Thus, the $142 billion cited above can be thought of more as a reduction in certain expenditures than as a gain in revenues ready for investment in the community.

Debt and Debt Limits

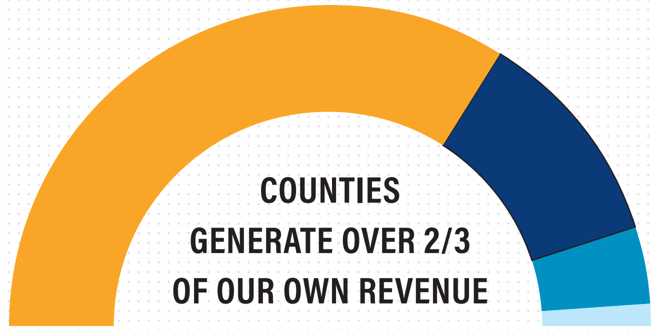
When it comes to large investments, most counties must turn to debt financing to make the investment more quickly without having to wait to save up cash. Whether investing in capital infrastructure or helping the community recover from a disaster, there are certain times when general fund revenues cannot cover the necessary expenditures. **Counties can use debt financing strategies such as issuing bonds to borrow money, taking out a short-term loan from a bank or other financial institution or pursuing state or federal loan programs** to generate revenue. Typically, a local government will issue bonds to borrow money, though some may qualify for certain state or federal loan programs, or even take out a short-term loan from a bank or other financial institution.

Nearly every state places some restrictions on counties' abilities to incur debt and finance projects or services. Only seven states (Alabama, Arkansas, Colorado, Florida, Idaho, Tennessee, Vermont) place no or few restrictions on debt acquisition – some simply require voter approval, or specify that any loan must be paid back within 30 years (Colorado) or 40 years (Tennessee). Vermont counties, which are severely restricted in their ability to provide and fund services, have a lot more flexibility when it comes to debt financing: the state permits Vermont counties to borrow any amount needed for a capital construction project.

On the other hand, six states (Alaska, Montana, Nebraska, New Mexico, North Carolina, Oklahoma) severely restrict debt financing for counties. Oklahoma counties, for example, need special state approval for any debt they contract. In New Mexico, the state assumes all county debt, and lists specific purposes for which counties may incur debt. Nebraska and North Carolina only allow counties to contract debt for specific purposes, with a different limit for each type of purpose.

The main type of limit that states place on the ability of county governments to use debt financing as a tool is based on assessed property values in the county – meaning that county governments may incur debt up to a certain percentage of total assessed property value. Thirty-two (32) states impose this type of limit, ranging from 0.12 percent in Minnesota to 15 percent in Hawaii, with the average being a limit of 5 percent (found in six states: Iowa, North Dakota, Oklahoma, Texas, West Virginia and Wisconsin). In certain states, this limit can be exceeded with voter approval. In Arizona, for example, counties have a debt limit of 6 percent, but the limit can rise to 15 percent with voter approval. Indiana's 2 percent limit can also be exceeded by voter approval (without any additional limit).

Seven states (Delaware, Maine, Massachusetts, Nebraska, North Carolina, Pennsylvania, South Dakota) place a different type of limit on their counties' total debt burden. Maine restricts county debt to 80 percent of the previous year's budget, and similarly, Massachusetts restricts county debt to the previous year's annual tax. In South Dakota, the limit for county debt is 95 percent of the total amount of uncollected taxes and funds for the current fiscal year. Mississippi is an example of a state with a twofold limit: 1 percent of assessed property values or $250,000 (whichever is greater). California, too, imposes a similar limit, where county debt cannot exceed 2 percent, nor can it exceed the revenue collected from taxes for the current year, unless approved by referendum.



COUNTY GENERATED REVENUE **68%** | $529 billion
STATE REVENUE **22%** | $169 billion
FEDERAL REVENUE **8%** | $62 billion
OTHER LOCAL REVENUE **2%** | $16 billion

Source: *NACo Analysis of U.S. Census Bureau - 2022 Census of Individual Governments: Finance*

Intergovernmental Revenue

County governments generate over two-thirds (68 percent) of our own revenue to provide services to residents. That leaves the federal government, states and other local governments to provide the remaining 32 percent – with the large majority (68 percent) of intergovernmental revenue coming from state governments. **Each year, counties receive $169 billion from state governments, $62 billion from the federal government and $16 billion from other local governments (totaling $247 billion).**

State intergovernmental revenue is the second most important source of county revenue, after property taxes, as well as the top county revenue source in 18 state. In Arizona, North Carolina and North Dakota, revenue from the state is especially important, providing over 40 percent of total county revenue (respectively). On the other hand, in 10 states (Florida, Georgia, Hawaii, Kansas, Louisiana, Maine, Missouri, South Carolina, Utah, West Virginia), counties receive 10 percent or less of their total revenue from the state, so are more self-reliant when it comes to funding services. Georgia and

West Virginia counties are especially independent of the state, receiving very small portions of their budgets from the state (3 percent and 5 percent, respectively).

Every state provides some amount of funding to counties, often through certain state revenue shares. Only in New Hampshire are there no set revenue shares between the state and the counties – New Hampshire counties only receive state funding through grants. State revenue shares are important to recognize because they represent an often-hidden, indirect revenue stream for counties. Counties may suffer financially when the state's revenue streams are impacted, but someone outside of the situation may only see the impact at the state level. For example, during the COVID-related economic shutdowns, it was easy to see and measure the financial impact on counties with a local sales tax. For counties without a local sales tax that receive a share of the state sales tax, however, the impact was less obvious, though in some cases, equally challenging.

The most popular revenue stream that states share with counties is the state gas tax. At least 24 states share a portion of their gas tax revenue with counties. Fifteen (15) states share some portion of revenues from oil or minerals with counties, and 12 states share revenue from fees or taxes on alcohol with counties. State sales taxes, real estate transfer taxes and motor vehicle-related fees or taxes are other common revenue shares, each found in at least nine states.

Many states have other, more unique revenue shares with counties, as well. Alaska shares a portion of its raw fish tax and head tax on cruise ships with boroughs. South Dakota shares a portion of the state's tax on property fire insurance premiums. Counties in Washington receive a portion of the state's marijuana excise tax, while Hawaii counties receive a portion of the state's transient accommodations tax. Illinois shares its income tax with counties. Four states (Florida, Nevada, New Mexico, Oregon) give counties a portion of their cigarette/tobacco tax revenues, and another four (Montana, New York, North Carolina, West Virginia) give counties a portion of state revenues from gaming and lotteries. Finally, many states share funding with counties for specific functions, such as Arkansas, which reimburses counties for holding state prisoners in local jails, and South Carolina has a local government fund that simply shares general revenues with counties.

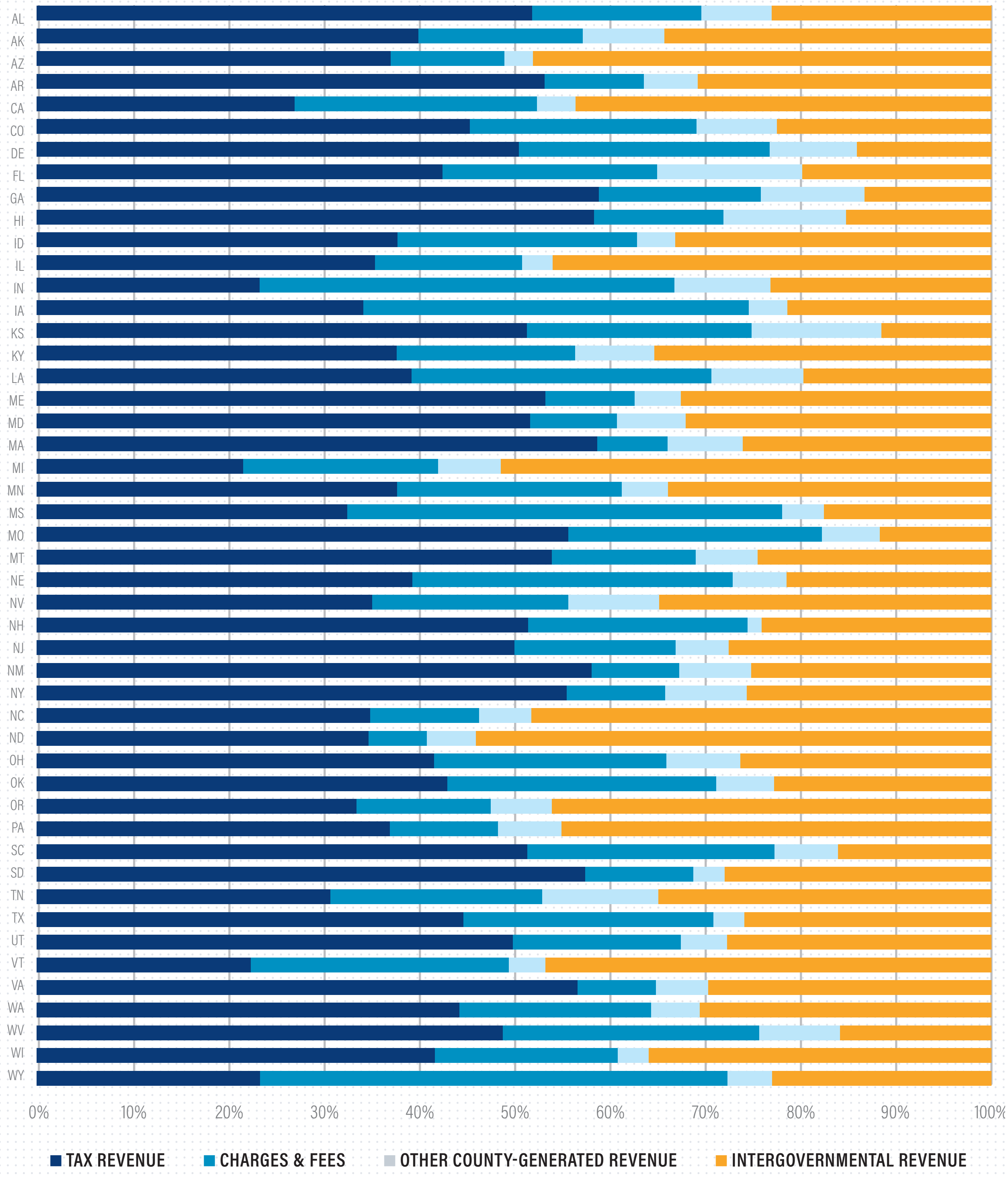
Key Takeaways

Intergovernmental Revenue: Every state, plus the federal government and some other local governments, provides funding to counties, amounting to **$247 billion** each year, or about **one third (32 percent)** of all county revenue.

Top Investment Categories: Counties invest over $740 billion each year, primarily in health and human services, justice and public safety, education and infrastructure services.

COUNTIES IN 12 STATES RELY HEAVILY ON INTERGOVERNMENTAL REVENUE AND IN ALL STATES FEDERAL TRANSFERS ARE CRITICAL

County Revenue Breakdown by State



Source: *NACo Analysis of U.S. Census Bureau - 2022 Census of Individual Governments: Finance*
Note: *"County-generated revenue" excludes intergovernmental revenue from federal, state and other local governments.*

Top Investment Categories: What Services Counties Provide

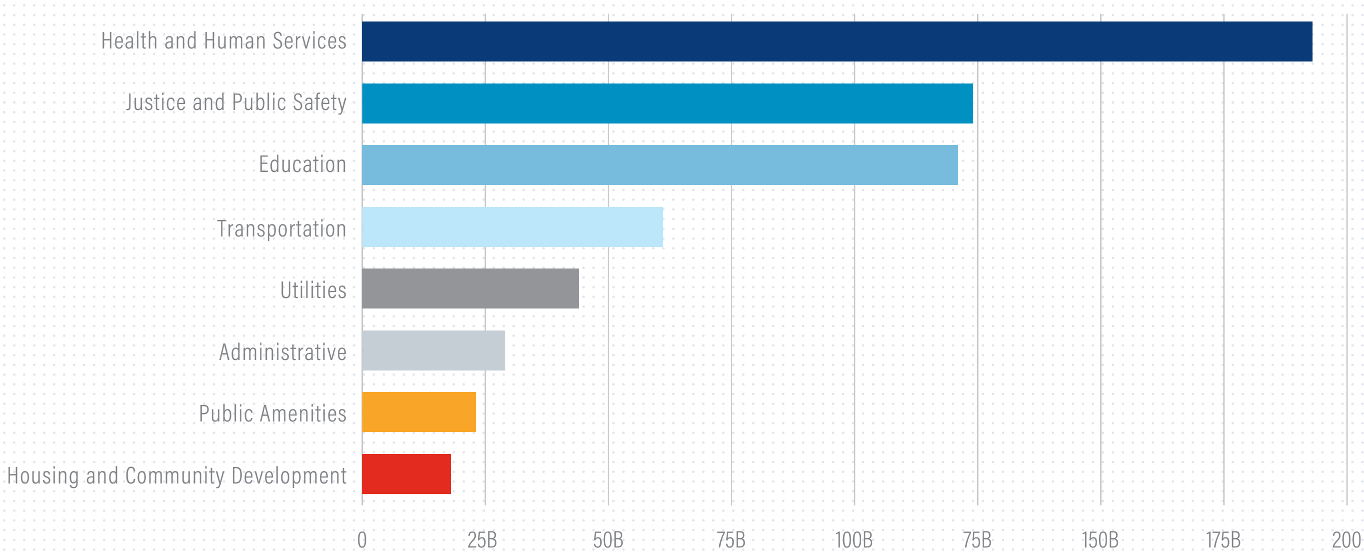
County revenues are only important insofar as they provide the funding county governments need to bring essential services to residents. Examining county expenditures provides a window into the role and focus of county government services across the nation and within each state. **Each year, America's 3,069 county governments invest over $740 billion into providing services for residents.** The top four categories are Health and Human Services ($194 billion or 26 percent), Justice and Public Safety ($124 billion or 17 percent), Education ($121 billion or 16 percent) and Transportation ($60 billion or 8 percent).

The top category, Health and Human Services ($194 billion) is fairly evenly divided between Human Services ($63 billion), Hospitals ($75 billion) and Public Health ($56 billion). Within Justice and Public Safety ($124 billion), the focus is on Police Protection ($51 billion), followed by Corrections ($31 billion) and Judicial and Legal Services ($23 billion). Education consists primarily of Elementary and Secondary Education ($113 billion), but also includes substantial investments in Higher Education ($8 billion). Finally, within Transportation ($60 billion), Highways comprises half of these expenditures ($33 billion). Public Mass Transit ($19 billion) makes up another third (32 percent) of the Transportation category, but only 399 counties are involved in these types of services.

At the state level, the top county investment categories vary, though Health and Human Services, Justice and Public Safety and Transportation are still the most common categories to find in the top four county

HEALTH AND HUMAN SERVICES IS TOP COUNTY INVESTMENT

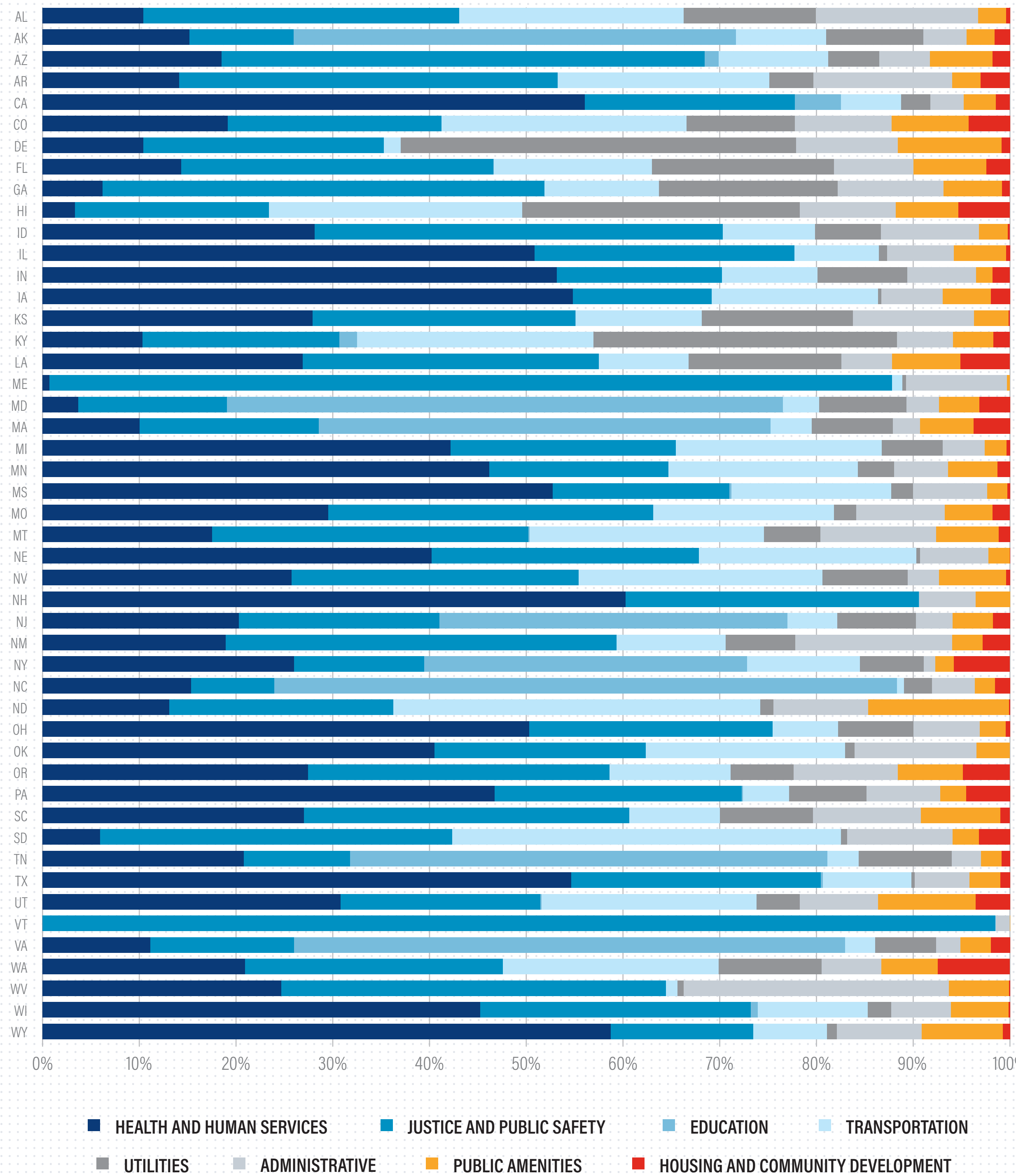
Total County Expenditures, by Category



Source: *NACo Analysis of U.S. Census Bureau - 2022 Census of Individual Governments: Finance*

COUNTIES LAY THE FOUNDATION IN COMMUNITIES

County Expenditure Breakdown by State



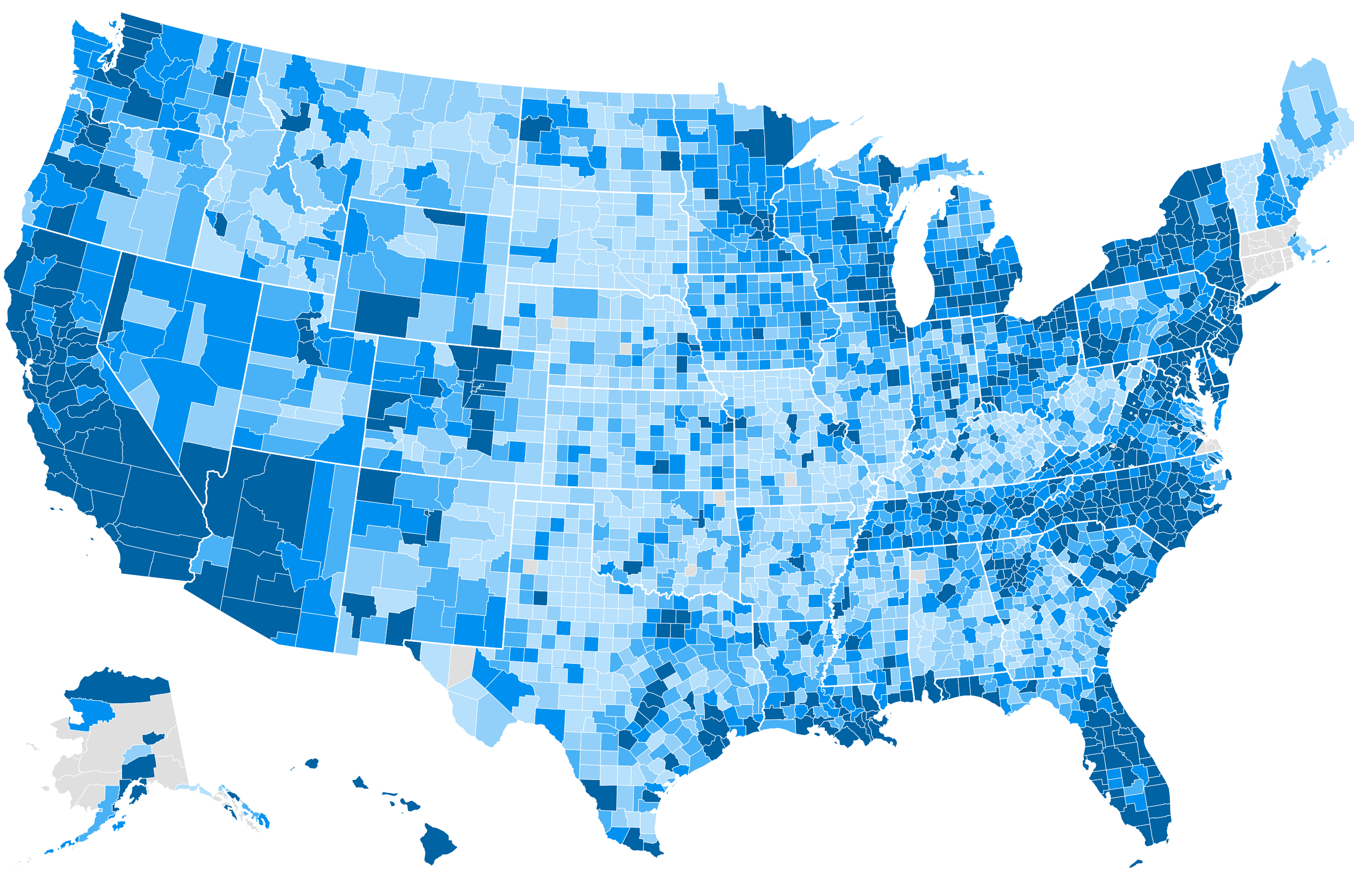
Source: *NACo Analysis of U.S. Census Bureau - 2022 Census of Individual Governments: Finance*

investment categories. Education is a unique category because, although counties in nearly every state contribute to the education system, these contributions are recorded as specifically county expenditures only in some states. Education is a top county investment category only in nine states.

Aside from these top investment categories, counties devote resources to numerous other services for residents, totaling nearly another $243 billion annually. Counties invest $23 billion annually in public amenities, such as parks and recreation ($13 billion), natural resources ($5 billion) and libraries ($5 billion). Housing and community development is another important county investment, totaling $18 billion each year. Some counties also invest in providing key utilities to residents. Two thirds of counties (1,938 counties) invest some amount in sewerage ($15 billion) or in solid waste management ($11 billion), amounting to $27 billion annually. Approximately one-fifth of counties (610 counties) invest in utilities ($18 billion), mostly for water ($13 billion), though 51 counties invest in electric ($4 billion) and 24 counties invest in gas ($776 million) utilities.

These county services and expenditures are legally dependent on the authority each state gives to county governments, but, more importantly, they are dependent on the ability of each county to raise adequate revenue, whether through taxes, fees or debt financing. When this fiscal autonomy is restricted, county governments must rely on funding from the federal and state governments to provide mandated services. Nevertheless, given the opportunity and financial flexibility, county governments can and will make key innovative investments to benefit our local communities and shape the future of our nation.

COUNTY GOVERNMENTS INVEST OVER $740 BILLION EACH YEAR



Source: *NACo Research, 2022*

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