

# UNITED STATES OF AMERICA

FEDERAL COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: US DOLLAR (USD)

### POPULATION AND GEOGRAPHY

**Area:** 9 831 510 km<sup>2</sup>  
**Population:** 325.983 million inhabitants (2017), an increase of 0.7% per year (2010-2015)  
**Density:** 33 inhabitants / km<sup>2</sup>  
**Urban population:** 82.1% of national population  
**Urban population growth:** 1.0% (2017 vs 2016)  
**Capital city:** Washington (0.2% of national population)

### ECONOMIC DATA

**GDP:** 19 390.6 billion (current PPP international dollars), i.e. 59 532 dollars per inhabitant (2017)  
**Real GDP growth:** 2.3% (2017 vs 2016)  
**Unemployment rate:** 4.4% (2017)  
**Foreign direct investment, net inflows (FDI):** 354 828 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 20.5% of GDP (2017)  
**HDI:** 0.924 (very high) rank 13 (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The United States is a federal republic composed of 50 federated states. The country has an elected head of state, the President, and a bicameral legislature composed of the Senate and the House of Representatives. The 435 voting members of the House of Representatives represent congressional districts proportionally to the population of the states. In the Senate, the 100 seats are occupied by two members of each of the 50 states, directly elected for six years, regardless of their size. The Senate has full legislative powers and an absolute veto over all legislation. The president is elected indirectly by an Electoral College of 538 electors. Each state has an entitled allotment of electors, which equals the numbers of members in the Congressional delegation. The capital, the District of Columbia, is allotted the number of electors that it would have if it had congressional representation. Territories do not have electors.

The United States has a three-tier system of subnational government made up of state governments, counties and municipal governments. The 1787 Constitution and Bill of Rights developed concepts of federalism based on dual sovereignty of the federal government and the states (Art. 4, 5 and 6). According to the 10th amendment, the Constitution defines the balance of powers between the federal government and the states, and specifies that all powers not specifically attributed to the federal level remain with the states. Each of the 50 states and five commonwealth territories are headed by governors, who are directly elected for four-year mandates (except for the states of New Hampshire and Vermont). The federal capital, the District of Columbia, is neither a state nor a territory, and is governed by a mayor and council, with oversight from Congress. Governors serve as both chief executive officers and commanders-in-chief. Every state (except Nebraska) has a bicameral legislature, made up of an upper and a lower house.

Local governments are not formally recognised in the federal Constitution as a separate order of government. They belong to the states and their types and structure varies according to their state's constitution or legislation, from counties to cities, townships or villages. Depending on the state, local governments can be governed by general law (Dillon's Rule), or they may be allowed to have their own charters, which consist of unique sets of laws that form the legal foundation of the local system. Even though chartered cities and counties are still subject to state laws, they are more autonomous than others regarding local laws and regulations. Some states allow local governments to adopt a charter on their own, whereas others grant directly charters to municipalities by state legislature; as of 2015, 31 states allowed chartered counties and 44 allowed chartered municipalities. In addition, the US has a highly decentralised election administration system, with variations across and even within states. All general-purpose local governments, including counties and municipalities, have elected representatives. Elections for general-purpose local governments are usually administered at the county level.

The vast majority of municipal governments operate on one of two governing models: a mayor-council system or a council-manager system. Under the mayor-council system, voters elect both a mayor and members of the city council. The city council performs legislative functions and the mayor the executive functions. In a council-manager system of government, either the members of the city council are elected by voters along with a mayor who presides over the council, or the voters elect members of the city council and the mayor is chosen from among them. In either case, the city council will then appoint a city manager to carry out the administrative functions of the municipal government.

The US Advisory Commission on Intergovernmental Relations, an official governmental forum to raise intergovernmental issues, was abolished in 1996. Today, most intergovernmental relations take place through ad hoc and short-lived intergovernmental fora, committees, task forces and sectorial working groups. The states lobby the federal government via their associations. Among others, the Intergovernmental Policy Advisory Committee (IGPAC) provides advice on trade policy matters of importance to state and local governments. There are 35 members (appointed by the United States Trade Representative) including governors, mayors, state legislators, attorney generals, state regulators and county officials. The National League of Cities, created in 1924, represents US cities, towns, and villages along with 49 state municipal leagues. With over 1 900 member cities, it plays a role in convening organisations, support networks, and representatives in federal affairs. At the state and local levels, some states have created Advisory Commissions on Intergovernmental Relations (ACIR) such as Connecticut, or a Local Government Advisory Commission (as in Massachusetts).

## TERRITORIAL ORGANISATION

2012	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	35 879 municipalities, towns and townships	3 031 counties	50 states	
	Average municipal size: 9 086 inhabitants			
	<b>35 879</b>	<b>3 031</b>	<b>50</b>	<b>38 960</b>

**OVERALL DESCRIPTION.** The United States federal structure is composed of 50 state governments, 3 031 counties at the intermediary level and 35 879 municipalities (according to the last 2012 census). States determine their own systems of local government, including their number, territorial organisation and powers. In practice, there are 50 different systems of local governments in the US, one for each state.

**REGIONAL LEVEL.** The federal entities consist of 50 states. States differ in population size, California being the most populous state (38.332 million inhabitants in 2013, i.e. 12% of the US population), and Wyoming the least populous (582 658 inhabitants, i.e. less than 0.2% of the US population) while the average size is 6.415 million inhabitants. With the exception of the federal capital, the District of Columbia, GDP per capita levels are relatively similar across US states in comparison with other OECD countries, as measured by the ratio of top 20% over bottom 20% of regions. However, regional disparities, in terms of GDP per capita, have slightly increased over the last 16 years.

**COUNTIES.** Counties were originally created to serve as administrative arms of state government, performing state-mandated duties. Their role was strengthened as urban populations began to spread beyond city boundaries, and county governments started to be devolved greater autonomy from the states. Organised county governments are found in every state but Connecticut, Rhode Island, and the District of Columbia.

**MUNICIPALITIES.** Municipalities have population thresholds that vary according to each state. Towns and townships exist in less than half of the states, located in areas that are not incorporated as municipalities, and typically have more limited powers. The distinction between towns and cities is primarily based on population size, as townships were established to govern areas without a minimum population concentration. It is interesting to note that between 1952 and 2012, the number of municipalities (including towns and townships) increased by 5.5%, resulting from the creation of new municipalities in unoccupied territories or subdivisions of existing municipalities. However, in some states such as Kansas and Nebraska, mergers have taken place recently. In 2017, the average size of municipalities was close to the OECD average of 9 700 inhabitants. Almost 70% of US municipalities have fewer than 2 500 inhabitants whereas only 5% have more than 25 000 inhabitants.

**INTER-MUNICIPAL COOPERATION AND METROPOLITAN GOVERNANCE.** Inter-municipal cooperation takes place through special-purpose governments (see below) but also through formal shared service arrangements that are usually led by state governments. They are sometimes based on state legislation or dedicated shared services programmes. Cooperation between municipalities at the scale of metropolitan areas is promoted by state governments but also by the Federal government, which from 1960 encouraged inter-municipal cooperation in major cities to deal with problems, especially transport-related issues, that seemed relevant at the metropolitan level. It supported the creation of two major cooperation arrangements in several US cities: the Councils of Governments (COG) and the Metropolitan Planning Organizations (MPO). They bring together local government institutions in the field of metropolitan planning and studies and regional policy exchange. Funded by the federal government, these entities are also responsible for allocating federal subsidies to public transport. In the 1980s, the federal government continued to support these bodies using environmental problem to justify its intervention. Gradually, the COGs (also called “metropolitan councils” or “regional councils”) and MPOs therefore gained skills and resources. As of 2015, there were 405 MPOs in the United States.

**SPECIAL-PURPOSE SUBNATIONAL GOVERNMENTS.** Besides general-purpose subnational governments, there are numerous types of elected special-purpose subnational governments in charge of providing governmental services, sometimes at the scale of several municipalities (inter-municipal cooperation). The main ones, recognised by the Census Bureau, are school districts and special district governments such as transport districts, fire districts, water districts, etc. (around 51 000 such entities in 2016). They are governed by a board, with members either elected by the public or appointed by the states, counties, municipalities, or townships forming the special district. They receive funds from federal, state and local sources. School districts and special districts are undergoing a consolidation process and their number decreased by 36% between 1950 and 2012, due mainly to the consolidation of school districts.

**OTHER ADMINISTRATIVE DIVISIONS AT SUBNATIONAL LEVEL.** The United States also comprise subnational administrative divisions, overseen by the federal government, including 14 territories in the Caribbean Sea and Pacific Ocean, among which five commonwealth territories are permanently inhabited, 326 Indian reservations, managed by Native American tribes recognised by the federal government and the Federal District of Columbia. The latter (Washington, D.C.) is the capital of the United States and the seat of the federal government. As the U.S. Constitution provided for a federal district under the exclusive jurisdiction of the U.S. Congress, the District is not a part of any state. Despite the existence of a locally-elected mayor and council since 1973, the Congress maintains supreme authority over the city.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Powers specifically granted by the Constitution to the federal government include the power to declare war, to collect taxes, coin and borrow money, make treaties with foreign nations, and regulate commerce between the states. According to the Tenth Amendment to the U.S. Constitution, “the powers not delegated to the United States by the Constitution nor prohibited by it to the states, are reserved to the states respectively, or to the people.” These reserved powers, often called the police powers, allow states to legislate and regulate to protect the health, safety, and morals of citizens.

Typically, states are responsible for economic development, education, intra-state commerce, the state police force, state parks, economic affairs, energy, etc. They also exercise full control over local governments within their jurisdictions. Although the U.S. Constitution appears to make the division of powers between the federal governments and the states clear, the reality is different. Many powers belonging to the federal government are shared by state governments (concurrent powers) such as taxing, borrowing and public welfare.

The powers of counties arise from state law and vary widely, from almost no powers to a large range of responsibilities, including public education, social services, transport, etc. In between, counties have a moderate scope, which typically includes courts, public utilities, libraries, hospitals, public health services, parks, roads, law enforcement, and jails.

Overall, counties and municipalities are in charge of a large array of responsibilities related to social services, local roads and economic development, community services and the provision of basic services. School districts are responsible for elementary and secondary education while special districts are active in various areas (hospitals, water and sewerage, housing, public transportation, airport districts, fire protection, etc.).

# UNITED STATES OF AMERICA

FEDERAL COUNTRY

## MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATES	COUNTIES	MUNICIPAL LEVEL
<b>1. General public services</b>	Civil registries; State criminal law; Prisons; Issuing licences; Organisation and control over local governments	Internal administration; County courts; County jails	International administration; Local ordinances; Municipal courts
<b>2. Public order and safety</b>	State police; Motor vehicle regulation	Law enforcement	Local police and fire protection; Traffic control
<b>3. Economic affairs /transports</b>	State economic development; Intra-state commerce; Highways; Railways; Airport; energy	County roads; County economic development	Local economic development; Public transportation; Local roads
<b>4. Environmental protection</b>	Environmental protection; State parks	Parks	Green areas and parks; Sanitation and waste disposal
<b>5. Housing and community amenities</b>	Water resources management; Zoning law	Public utilities	Local land use and zoning; Building regulations; Housing services; Urban development; Water utilities; Street lighting
<b>6. Health</b>	Health	Public hospitals; Health services	Emergency medical services
<b>7. Recreation, culture &amp; religion</b>		Libraries	Recreation and libraries; Stadiums
<b>8. Education</b>	Higher education		
<b>9. Social protection</b>	Income support (cash and in-kind, particularly health care for the poor through Medicaid)	Income support and social services	

## SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

**Scope of fiscal data:** at state level: 50 state governments; state temporary disability insurance systems; state workers' compensation systems; At local level, general purpose governments, special district governments, public school systems. Note: Subnational finance data for the United States are provided only in an aggregated and consolidated manner, without distinction between state and local governments.

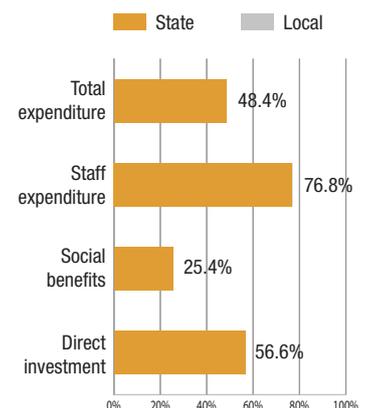
SNA 2008

Availability of fiscal data:  
**Medium**Quality/reliability of fiscal data :  
**Medium**

**GENERAL INTRODUCTION.** The federal government's fiscal powers are defined by the US Constitution (Art. 1, Section 8). Yet the U.S. Constitution does not define clearly the fiscal roles and relationships of the federal and state governments. Besides, the definition and control of local government fiscal policy is devolved to the states. Overall, SNGs have large autonomy regarding their fiscal policy, with few limitations imposed by the federal constitution, despite a growing influence of the federal government over time. At local level, local fiscal autonomy differs markedly from one state to the next. In some states, local governments are under strict fiscal constraints while in others, large local governments may have considerable discretion to build their own financing systems. This high degree of decentralisation generates wide fiscal disparities among states and local governments that are not fully compensated by weak intergovernmental transfer schemes, either at the state level or at the federal level. SNG finances were severely hit by the 2008-09 economic crisis, due partly to the strict balanced budget rules applied to SNGs, and to their heavy reliance on specific sources of revenues on the other hand (such as the property tax for many municipalities). Since then, the fiscal situation of states and municipalities in the United States has been slowly improving, as intergovernmental fiscal policies start to address long-term structural imbalances.

### SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION\*

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)	
	SNG	State	Local	SNG	State	Local	SNG	State	Local	State	Local
<b>Total expenditure</b>	10 533	n.a.	n.a.	18.3%	n.a.	n.a.	100%	n.a.	n.a.	48.4%	
<b>Incl. current expenditure</b>	9 523	n.a.	n.a.	16.5%	n.a.	n.a.	90.4%	n.a.	n.a.	76.8%	
Staff expenditure	4 317	n.a.	n.a.	7.5%	n.a.	n.a.	41.0%	n.a.	n.a.		
Intermediate consumption	2 495	n.a.	n.a.	4.3%	n.a.	n.a.	23.7%	n.a.	n.a.		
Social expenditure	2 142	n.a.	n.a.	3.7%	n.a.	n.a.	20.3%	n.a.	n.a.		
Subsidies and current transfers	2	n.a.	n.a.	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.		
Financial charges	567	n.a.	n.a.	1.0%	n.a.	n.a.	5.4%	n.a.	n.a.	25.4%	
Others	0	n.a.	n.a.	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.		
<b>Incl. capital expenditure</b>	1 010	n.a.	n.a.	1.8%	n.a.	n.a.	9.6%	n.a.	n.a.	56.6%	
Capital transfers	0	n.a.	n.a.	0.0%	n.a.	n.a.	0.0%	n.a.	n.a.		
Direct investment (or GFCF)	1 010	n.a.	n.a.	1.8%	n.a.	n.a.	9.6%	n.a.	n.a.		

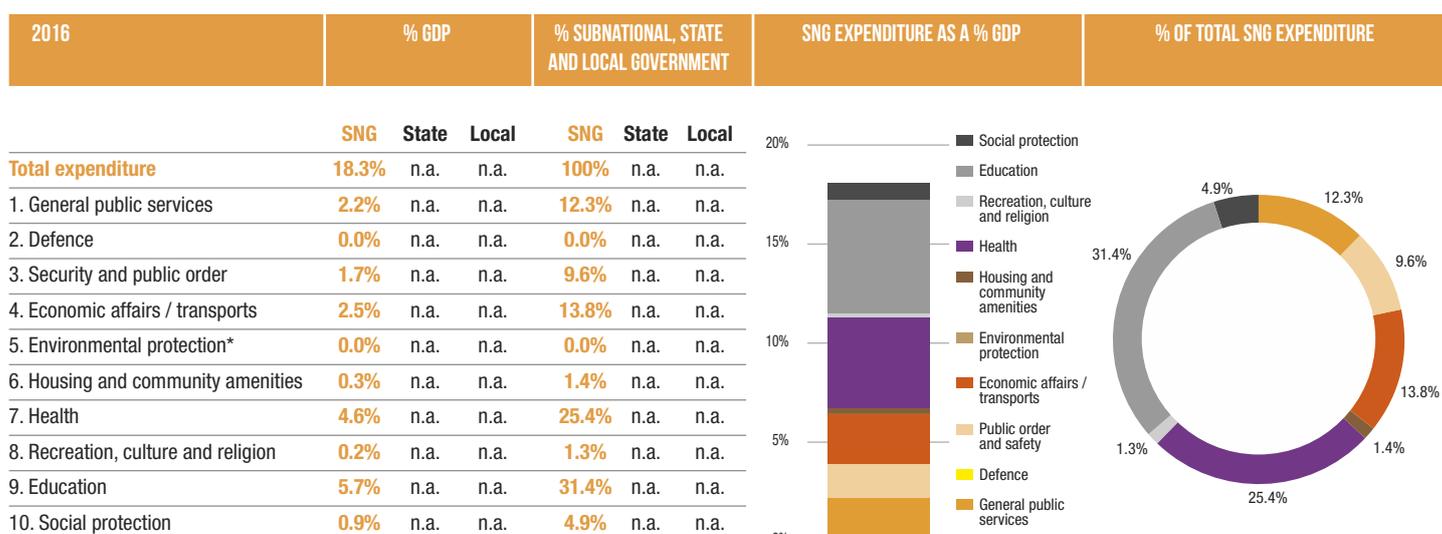


\* The breakdown between the states and local government is not available in the national accounts.

**EXPENDITURE.** American SNGs are key economic and social actors. Their shares in GDP (18.3%) and public spending (48.4%) are above OECD averages (respectively 16.2% and 40.4%) and slightly below the OECD average of the nine federal countries (respectively 19.2% of GDP and 50.0% of public expenditure). Local governments represent a slightly larger share of SNG expenditure than state governments (52%), considering that they often administer programmes with funds transferred from the state governments. SNGs are also key public employers, accounting for more than three-quarters of total public staff spending. 43 states out of 50 increased spending levels in 2016 versus 2015; yet, states and local government spending varies widely across states. In 2016, Alaska had the highest per capita SNG spending (USD 18 499) whereas Idaho had the lowest (USD 6 571).

**DIRECT INVESTMENT.** SNGs play a key role in investment in the US and account for the bulk of total public investment, similar to the OECD average of 56.9%. However, they stand below the OECD average for federal countries (62.3% in 2016). State governments alone were responsible for 21.5% of public investments in 2016. In 2009, in response to the economic crisis, the federal government launched a recovery package made up of contracts, grants and loans, partly dedicated to supporting public investment (American Recovery and Reinvestment Act-ARRA). It supplemented state funding for SNGs for investments in transport and particularly mass transit and education, and encouraged coordination across levels of government. SNGs administered one-third of ARRA. Increasing infrastructure demands have been the biggest pressure on municipal budgets since the recession. Other federal investment schemes are dedicated to support state and local investments in transport and water infrastructure, such as the Water Infrastructure Finance and Innovation Act Program (2014). As of 2017, state and local governments spent 59% of their capital expenditure on transport and water infrastructure.

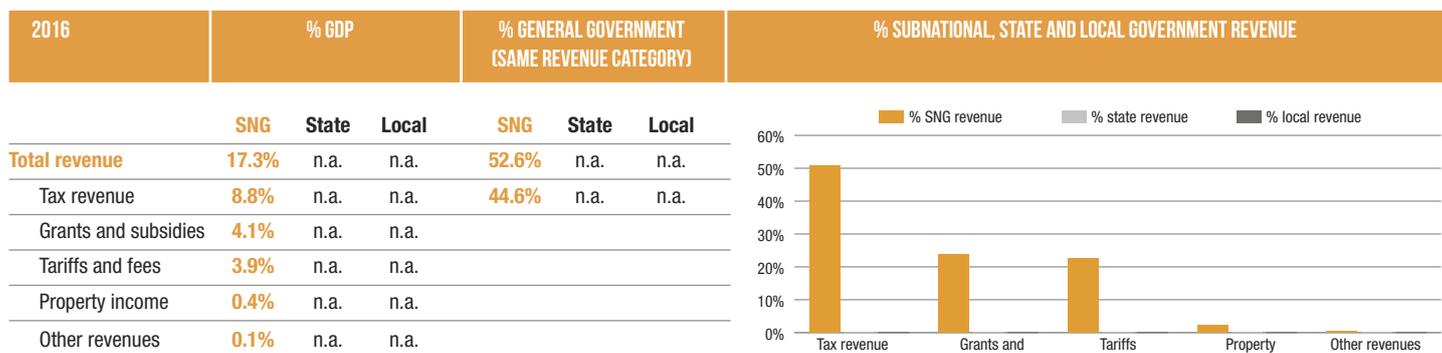
#### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG



\* Environmental protection expenditure is included in “housing and community amenities” area.

SNGs in the US spend most of their resources on education and health, which represented 56% of SNG total expenditure in 2016. Spending in education is focused on elementary and secondary education (covered mainly by local governments, which represented about 21% of SNG spending in 2016) and higher education (covered mostly by state governments, accounting for 10%). Spending on health were mainly covered by state governments, and Medicaid, a health programme jointly funded by states and the federal government and administered by states. Medicaid has constituted a large, and growing, portion of state government spending. In fact, the National Association of State Budget Officers (NASBO) estimates that in 2018, Medicaid alone accounted for nearly 30% of total state spending. Other public welfare spending by SNG includes hospitals, Temporary Assistance for Needy Families, and Supplemental Security Income. Economic affairs and transport are the third main area of SNG spending (13.8%), covering highways and roads, among others. Regarding their share in total public spending by sectors, SNGs are also responsible for the large majority of total public spending in the areas of security and public order, recreation and culture and education (over 80% in those three categories).

#### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



**OVERALL DESCRIPTION.** The federated states and, at the discretion of states, local governments have a large degree of fiscal autonomy as defined in their own constitutions, and broad authority over their fiscal policy, including tax types, collection, rates, bases and budgetary priorities. SNG revenue in the US accounts for a share of total public revenue that is in line with the OECD average for federal countries (53.1% in 2016). Taxation is the primary source of revenue for SNGs, accounting for a share of SNG revenue above the OECD average for federal countries (47.5% in 2016). This is also the case for tariffs

# UNITED STATES OF AMERICA

FEDERAL COUNTRY

and fees, which amount to 22.5% of SNG revenues in the United States compared to an average of 17.2% in OECD federal countries. In contrast, the share of grants and subsidies in SNG revenue is well below the OECD average for federal countries (31.5% in 2016).

**TAX REVENUE.** SNG tax revenues accounted for 17.3% of GDP and 52.6% of public tax revenues in 2016, which is well above the OECD average (7.1% of GDP and 31.9% of public tax revenue), even when considering the average of the OECD federations (8.8% of GDP and 42.4% of public tax revenue). In 2016, tax revenue represented approximately 48.3% of state revenue and 54.3% of local government revenue. There are no tax sharing arrangements between the federal government, the states and local government. Some states however have established tax sharing arrangements in their jurisdictions. Most SNG taxes are therefore own-source taxes.

At the SNG level, the primary source of tax revenues is the recurrent tax on immovable property (28% of SNG tax revenue in 2016 and 14% of SNG revenues). It is followed by the personal income tax (PIT) and the sales tax (in total amounting to 23.5% of SNG tax revenue and 12% of SNG revenue), excise tax (5.9%) and the corporate income tax (3.7%).

At the state level, the largest source of tax revenue comes from the PIT (37% of state tax revenue, i.e. 18% of state revenue). The structure of state PIT varies from state to state. Seven states impose no income tax, while eight states have top marginal tax rates up to 11%. However, the breakdown of tax revenue varies from state to state. The second most important tax is the sales tax (31.5% of state tax revenue and 15.4% of state revenue), the rate of which varies across states, from 2.9% in Colorado to 7.25% in California. Five states do not have sales tax. Other major taxes include excise taxes, license taxes, the corporate income tax, motor fuel tax, and severance taxes on natural resource extraction.

Local government taxes vary from state to state, and by type of local authority, but the most important source of own revenue for local governments is the recurrent tax on immovable property, levied in all 50 states on both residential and business property, based on market value. In 2016, the property tax levied by counties, municipalities and townships represented 68.4% of local revenue and 2.5% of GDP, above the OECD average of 1.1% of GDP in 2016. Real property tax rates differ widely across and within states, and local governments use various methods to calculate their real property tax bases. School districts also collect property tax revenue, which account for a significant portion of their revenue. The remaining part of the local government property tax is collected by Special Districts such as water and sewer authorities. In addition, 37 states have implemented tax-sharing systems with local authorities within their jurisdictions, by allowing them to impose their own general sales taxes in addition to the state tax. Local rates range from 0.5% to 8.3%. In 2016, the share of local government sales tax accounted for 12.5% of local tax revenue. Other shared taxes may include the local individual income tax (4.8% of local tax revenue in 2016) and corporate income tax.

The last major tax reform passed at the end of 2017 changed the ability of US taxpayers to deduct state and local taxes (SALT). SALT deductions were introduced with the Revenue Act of 1913, which also introduced the federal income tax, stating that “all national, state, county, school, and municipal taxes paid within the year, not including those assessed against local benefits,” could be deducted. The Revenue Act of 1964 later named specific state and local taxes that could be deducted, including real and personal property, income, and general sales taxes. The aim, in a partnership between the federal government, states and local governments, was to avoid double taxation by several levels of government, and to provide incentives for homeownership. The new law partially eliminated the SALT deduction, now capped at USD 10 000 for property, plus income or sale taxes. In addition to this change, the reform also reduced the maximum marginal corporate tax rates down from 35% to 21%.

**GRANTS AND SUBSIDIES.** Unlike most other federations, there is no federal unconditional general grant, or equalisation grant system, to either state or local governments in the US. However, some intergovernmental transfers may contain equalising elements, through the inclusion of per capita income in various grant formulas, and targeted categorical grants.

Over the years, the federal intergovernmental system in the US has become increasingly centralised, with the federal government using federal grants and mandates to expand its influence in many policy areas. In this sense, the Congress has a central role in determining the scope and nature of the federal grant system. Transfers increased rapidly from 2008 to 2010, to assist state and local governments recover from the 2007-2008 economic crisis, especially with the enactment of the 2009 American Recovery and Reinvestment Act of (ARRA). They have increased again since 2014 due to the expansion of Medicaid eligibility (Patient Protection and Affordable Care Act – ACA), which positioned healthcare as the leading category of federal assistance to SNGs. However, the recent upward trend in federal grants to SNGs is expected to slow, as part of an effort to address the federal deficit and debt.

The three general types of federal grants to state and local governments are categorical grants (to be used only for relatively narrowly-defined purposes), block grants (for a specific aid programmes), and general revenue sharing. The main categorical grant refers to the Children’s Health Insurance Program (CHIP – Medicaid). State and local governments may have more or less discretion over federal earmarked grants (the Community Development Block Grant is the largest), and have to comply with federal standards and monitoring.

At the local government level, 85% of transfers to local governments come from state governments and, increasingly, from the federal government (15% of grants). A portion of state transfers comes indirectly from the federal government in the form of pass-through grants, ‘subawarded’ to local governments for carrying out specific grant programmes. State transfers to local authorities vary from state to state. In most cases they are earmarked, although some states provide general-purpose grants and have equalisation systems, through formulas based on such factors as population, tax capacity, and fiscal need. They are dedicated in particular to mitigate property tax disparities among local governments.

**OTHER REVENUES.** In addition to tax revenues, state and local governments levy fees and charges for services rendered which represent a larger share of their revenue than for the average of OECD federal countries (17.2% in 2016). Local governments may collect fees and charges on a variety of services such as sewerage, parking meter fees, accounting for approximately 18% of local revenue. On the other hand, states receive highway tolls, trust revenues, service charges for education and hospital-related services, interest revenue, and are increasingly relying on proceeds from lotteries.

In aggregate, tariffs and fees provide a substantial amount of revenue for SNGs, especially for states that collect relatively little tax revenue. They also receive property income, and tuition paid to state universities.

#### ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
<b>Total outstanding debt</b>	<b>18 200</b>	n.a.	n.a.	<b>31.6%</b>	n.a.	n.a.	<b>24.1%</b>	n.a.	n.a.	<b>100%</b>	n.a.	n.a.
Financial debt*	9 589	n.a.	n.a.	16.7%	n.a.	n.a.	16.2%	n.a.	n.a.	52.7%	n.a.	n.a.

\* Currency and deposits, loans and bonds

**FISCAL RULES.** The federal government does not impose fiscal rules on state or local governments. However, the statutory limit set on federal government debt and the federal budget procedures that constrain federal spending may have an indirect effect on state and local finances. Most important fiscal rules in the US federal system are set by the states, imposed upon themselves and on local governments within their jurisdictions, mostly by their own citizens via constitutional and statutory law. In that context, they vary from state to state, including various ceilings, prohibitions and conditions on deficit and debt.

Overall, almost every state and local government (all except the state of Vermont) is required to maintain a balanced operating budget. As of 2017, 35 states had some sort of tax and expenditure limitations of varying degrees, based on inflation or on the previous year's budget or personal income growth. Many states go beyond their own fiscal rules to extend additional restrictions on local government finances, such as limits on property taxes and spending. States also impose financial management and audit requirements on local governments to ensure appropriate financial accountability for spending. The Congressional Budget Office (CBO), created in 1974, has the mandate to provide the Congress with nonpartisan and objective budget analysis at state level.

**DEBT.** All states have debt rules applying to their own debt and that of local governments, with statutory limits on tax receipts or general funds. Long-term debt is usually intended for capital projects ("golden rule"). To deal with the risk of local bankruptcy, 23 states have laws that allow them either to supervise local government debt or to assist local governments with debt restructurings in the face of a fiscal emergency.

In 2016, SNGs had a total debt outstanding amounting up to 31.6% of GDP and 24.1% of public debt. These levels of debt are close to the OECD average of federal countries (31.3% of GDP and 27.1% of public debt). SNG debt is made up of financial debt (53%), pension liabilities (32%) and other accounts payable (15%). Financial debt comprises almost exclusively bonds, issued by states and local governments for the financing of infrastructure and capital expenditure, such as investments in schools, streets, highways, hospitals, bridges, water systems, and other public works.

SNG debt may take two forms: General obligations, entirely funded by a general-purpose government, and non-general obligations, issued by governments and special entities, usually backed by a specific revenue source. Municipal bond issuance is a particularly interesting way for state and local governments to finance infrastructure as they save additional interest expenses through federal tax exemption for municipal bonds. Thanks to a well-developed framework of municipal borrowing, large and small SNGs in the United States have gained access to the municipal bond market, some of them through pooled financing mechanisms, i.e. the creation of a public financing entity acting as a financial intermediary between the capital market and smaller-size local governments. On average, 11 600 municipal bonds are issued each year. The creation, mandate and function of municipal bond banks are governed by state legislation. Another major form of pooled financing used in the United States is State Revolving Funds (SRFs). They were first developed in 1978 to leverage federal grants for revolving loans for local environmental and water projects.



Lead responsible: OECD  
Last update: 02/ 2019

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**Socio-economic indicators:** OECD // World Bank // UNDP // UN Desa // ILO.

**Fiscal data:** OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // US Census Bureau // Congressional Budget Office // Urban Institute // U.S. Office of Management and Budget.

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