

Text 1 Supplement

Tax (or revenue) limits and expenditure limits Tax (or revenue) limits include a broad range of budgetary constraints on fiscal authority (Mullins, 2004). Limits on property taxes are most common, but in some cases, general own source revenues are subject to limitations. Full disclosure rules which promote transparency in municipal taxation can also be included in this category. Limits on general expenditures are a form of caps on annual growth rate in general (Maher et al., 2016a). Both limits tend to include certain exemptions and override provisions (e.g., property tax levy for debt service).

Balanced-budget requirements (BBRs) State-imposed BBRs are based on “the norm of balance” (Lewis, 1994, p.515). States enact these anti-deficit rules to prevent their sub-units from having negative budget balances in a fiscal year, which threaten budgetary integrity and fiscal prudence. In general, state-imposed balanced-budget rules require that municipal governments have to have a balanced proposed budget, a balanced adopted budget, no year-end deficit, or some combination of these (Lewis, 1994). Certain exemptions such as emergency expenditures exist.

Debt limits (DLs) DLs are expected to shape municipal debt management by controlling for the amount of debt issues (Yusuf, Fowles and Grizzle, 2012). More specifically, DLs generally restrict the total amount of debt issued by a municipal government within a certain percentage of assessed property value or a specific millage rate of government income. In most states, DLs are coupled with state-imposed requirements of a referendum for municipal bond issues, the maximum bond life, and an interest ceiling(s) on municipal bonds (ACIR, 1993).

Text 2 Supplement

Because this study relies on the self-reported GFOA database and combines multiple data sources, the representativeness of the selected sample municipalities may be an issue. In fact, the sample municipalities in this study tend to be over-representative of entities in some states such as California and Washington, and under-representative of municipalities in New Jersey, New York, and Pennsylvania. Also, the sample municipalities over-represent relatively larger entities with population over 25,000 and with a median household income of \$70,000 or higher. Previous studies have shown that larger local governments are less likely to be constrained by fiscal restrictions (Park, Maher and Ebdon, 2018). Further, it has been reported that the GFOA database generally overrepresents local governments with the council-manager form (as opposed to the mayor-council form) (Maher et al., 2016a). Previous studies have shown that professional managers are more capable to

mitigate the constraining effect of state-imposed fiscal rules (Maher, Deller and Amiel, 2011; McCabe and Feiock, 2005). The sample municipalities in this study, therefore, may overrepresent entities that are less susceptible to state-imposed fiscal rules, but more capable to address their impacts.

Table 1 Supplement. *Review of selected empirical studies*

Study	IV	DV	Measure of DV	Finding (associations between IV and DV)
Park, Park & Maher (2018)	Restrictiveness of municipal TELs	Changes in municipal revenue sources	Annual % change of IG aid	+
			Charges/fees	0
			Property tax	0
			General expenditures	0
			Capital investment	-
			GO debt	0
			Debt services	+
Maher, Deller, Stallmann & Park (2016)	Restrictiveness of municipal TELs	Credit ratings	Moody's municipal credit ratings	-
Sun (2014)	Existence of State-imposed local tax and expenditure limitations (TELs)	Municipal revenue sources	Own-source revenue	+
			Property tax	-
			Sales tax, Income tax	+
			Other tax	0
			User charges	+
			Miscellaneous	0
Blom-Hansen et al. (2014)	Years TELs in effect	Expenditures Revenues (strategy)	Budgeted expenditure	+
			Grant	+
			Tax, Capital income	-
			Loan	--
Borge & Hopland (2014)	Years balanced-budget rule in effect	Local deficit	Current year deficit	-
			Accumulated deficit	-
Clair (2012)	Existence of State-imposed local TELs	Revenue volatility	The standard deviation of the annual percent change of real per-capita revenue	+
Rundle (2009)	Existence of debt limits, revenue limits, expenditure limits	Borrowing cost	True interest cost	Debt limits: 0 Revenue limits: + Expenditure limits: 0
Shadbegian (1998)	Existence of local TELs	Municipal revenues and expenditures	Total revenues	-
			Total expenditures	-
			Property tax	-
Dye & McGuire (1997)	Year TELs in effect	Revenues Expenditures	Property tax	-
			Operating/instructional	-
Farnham (1985)	Existence of	Debt	The level of gross debt;	Limit: -; Referendum: 0

	State-imposed debt limit; Debt referendum	performances	Long-term debt; GO debt	Limit: -; Referendum: 0 Limit: 0; Referendum: 0
McEachern (1978)	Simple/super majority debt referendum	Local debt preferences	Debt levels	Simple majority rule: 0 Super majority rule: -

Note 1. “+”, “-” and “0” indicate positive, negative and no significant relationship, respectively.

Table 2 Supplement. *State-imposed fiscal rules governing municipal governments: current status (as of 2015)*

Group	State	Tax (revenue) limits	Expenditure limits	BBRs	DLs
1	TN, and TX	√			
2	FL and NE	√		√	
3	AL, AK, AR, IL, IN, IA, ME, MD, MN, MS, NM, NY, ND, OH, PA(a), SD, VA and WV	√			√
4	AL(a), GA, ID, IL(a), KS, KY, LA, MA, MI, MO, MT, NE(a), NV, NC, OK, OR RI, UT, WA, WI and WY	√		√	√
5	CA	√	√		√
6	AZ and CO	√	√	√	√
7	CT, DE, HI, NH, PA, SC, and VT				√
8	NJ		√		√

Source: Organized by author based on a review of states’ constitutions and statutes

Note 1: PA(a) is non-home rule municipalities only; AL(a) includes class II and IV municipalities; IL(a) includes municipalities with population over 500,000; NE(a) includes municipalities with population over 300,000 and with 800–4,999.