

Appendix B

Fiscal Capacity and Effort Measures

Fiscal capacity is a concept developed by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) to measure the relative revenue-raising abilities of States and their local governments, including taxes and nontax revenues, such as user charges. **ACIR defines fiscal capacity as the relative amount of revenue States would raise if they used a "representative" tax and revenue system, consisting of national average tax rates and charges applied to 30 commonly used tax and revenue bases.** Therefore, State capacities vary because of differing tax base characteristics, such as property values, sales tax receipts, and mineral production. For example, the effect of lower energy prices would adversely affect the fiscal capacity of those States that rely on energy-related taxes and user charges to raise a significant share of State

revenue. The method developed by ACIR is only one of several methods to measure fiscal capacity, and some believe an analysis based on per-capita income, though much simpler, is equally useful.

ACIR also measures fiscal effort, or relative tax burdens, across States. Revenue effort is defined by ACIR as the burden that each State places on each revenue base relative to the national average.

Table B-1 shows State capacity and effort indexes and rankings as developed by ACIR. Because the ACIR analysis is based on 1986 data, changes have undoubtedly occurred in the index, but the general trends and relationships remain valid.

Table B-I-State Fiscal Capacity and Effort, 1986

	Fiscal capacity ^a		Fiscal effort ^a	
	Index (100=U.S. average)	Rank	Index (100=U.S. average)	Rank
Alabama	75	48	102	16
Alaska	287	1	139	2
Arizona	96	24	96	31
Arkansas	73	50	91	41
California	117	10	96	30
Colorado	115	11	88	45
Connecticut	139	3	86	46
Delaware	119	9	98	25
District of Columbia	123	6	129	3
Florida	102	15	84	48
Georgia	92	32	98	23
Hawaii	109	12	102	17
Idaho	76	47	94	38
Illinois	97	20	97	29
Indiana	86	40	97	27
Iowa	84	41	114	6
Kansas	95	26	95	34
Kentucky	77	46	94	37
Louisiana	94	29	99	22
Maine	92	33	94	39
Maryland	107	14	98	26
Massachusetts	122	7	96	32
Michigan	96	25	114	7
Minnesota	101	17	113	8
Mississippi	65	51	109	9
Missouri	95	28	82	49
Montana	88	37	101	19
Nebraska	91	35	104	12
Nevada	137	4	76	50
New Hampshire	121	8	68	51
New Jersey	125	5	94	35
New Mexico	102	16	94	36
New York	109	13	141	1
North Carolina	86	38	90	43
North Dakota	93	30	103	15
Ohio	92	34	100	21
Oklahoma	95	27	92	40
Oregon	92	31	103	14
Pennsylvania	90	36	98	24
Rhode Island	97	23	102	18
South Carolina	77	45	101	20
South Dakota	77	44	96	33
Tennessee	82	42	90	42
Texas	101	18	84	47
Utah	79	43	108	10
Vermont	97	22	97	28
Virginia	100	19	89	44
Washington	97	21	106	11
West Virginia	74	49	103	13
Wisconsin	86	39	128	4
Wyoming	157	2	119	5

^aBased on State and local tax bases and other revenue sources, such as user charges.SOURCE: Advisory Commission on intergovernmental Relations, *State Fiscal Capacity and Effort* (Washington, DC:1989), p. 13.