

## Dynamic Analysis of the Local Government Revenue Generation of Padang City Before and After the Regional Autonomy

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### Abstract:

This research will focus on the general allocation fund, investment and population growth factors towards regional revenue consisting of Regional Tax and Non Tax Revenue Posts. The analysis also focused on the analysis of the presence or absence of the flypaper effect on the realization of the Padang City Government's GRDP before and after regional autonomy. This research is classified as descriptive and associative research and also *expo facto*. Data on all variables in this study began from 1980 until 2018 in the city of Padang. Analysis of the data used in this study uses regression analysis. The analysis shows that 1) general allocation fund has a significant effect on Padang City original local government tax 2) Investment has no significant effect on Padang City original local government tax 3) Regional autonomy policy has a significant effect on Padang City original local government tax 4) Population Growth has no significant effect on Padang City original local government tax 5) DAU has a significant effect on Padang City original local government non-tax 6) Investment has no significant effect on Padang City original local government non-tax 7) Regional autonomy policy has no significant effect on Padang City original local government non-tax 8) Population growth has a significant effect on Padang City original local government non-tax 9) original local government tax has a significant effect on regional expenditure in Padang City 10) original local government non-tax has a significant effect on regional expenditure in Padang City 11) No flypaper effect occurs on regional expenditure on the realization of the Padang City Regional Budget.

**Keywords:** original local government revenue tax; original local government revenue non-tax; general allocation fund; regional expenditure; flypaper effect.

**JEL Classification:** O15; O18.

### Introduction

The implementation of regional autonomy which has entered its two decades of implementation has made the community demand for the government to provide optimal services by promoting transparency in the historic momentum called "reform". At that moment there were various major changes in the practice of services and authority between the center and the regions. If before the reform period (New Order) used a centralized system, then the reform would actually give birth to a system that was the opposite (decentralized) with the birth of the policy of "regional autonomy".

In Law no. 9 of 2015 concerning Regional Government and Law no. 33 of 2004 concerning financial balances between the central government and regional governments, it has been regulated that government revenues consist of Original Regional Revenues, Balancing Funds and others that are legal. Regional autonomy gives freedom to each region to take care of the affairs of their respective regions. Local governments are required to collect local taxes and levies wisely. In addition, the allocation of the results of regional tax revenues and regional levies must be fair and equitable. In order to increase the financial capacity of the region in order to carry out autonomy, the government implemented various tax policy changes to Law No. 18 of 1997 concerning Regional Taxes and Regional Retribution. The granting of authority in the imposition of regional taxes and levies, is expected to further encourage the Regional Government to continuously strive to optimize Local Revenue, especially those originating from regional taxes and levies (Sidik 2002).

In connection with the management of OLGR and regional expenditure, Kuncoro (2004) concludes that OLGR is only able to finance local government spending at a maximum of 20%. This fact has led to asymmetric behavior in local governments, which can be seen from the indication of inefficiency in the transfer of funds, and can be seen from the response to government spending, better known as the flypaper effect. The comparison of the use of intergovernmental funds against regional revenues is still too high compared to other regional revenues, including OLGR. Many researches about local government have been conducted (Basuki 2019, Prabowo 2019, Marsyaf 2019, Ananda 2019, Andria 2019).

Various factors can be identified that can affect OLGR including tax revenue and revenue sharing from the central government, unemployment and the level of fiscal decentralization (Maličká 2012). Development Expenditures, Population Amounts, GRDP (Purbayu 2005, Oktavina 2012, and Gomes 2013) and government policies, emphasizing the effectiveness and reliability of the tax assessment collection system (Sorsa 2017). In this study, the focus will be on the GAF, investment and population growth factors towards regional revenue consisting of Regional Tax and Non-Tax Revenue Post. The analysis also focused on the analysis of the presence or absence of the flypaper effect on the realization of the Padang City Government's GRDP before and after regional autonomy.

## 1. Literature review

### 1.1. Regional autonomy

According to Law No. 23 of 2014 concerning Regional Government, "Regional autonomy is the right, authority and obligation of autonomous regions to regulate and manage their own government affairs and the interests of local communities in accordance with statutory regulations". From this understanding, it can be interpreted that regional autonomy is independence or freedom to determine their own rules based on legislation, in meeting regional needs in accordance with the potential and capabilities of the region.

Regional autonomy that has been running for more than twenty years is expected not only to transfer authority from the center to the regions to shift power. This was confirmed by Kaloh (2002), that regional autonomy must be defined as autonomy for the people of the region rather than "regional" autonomy in the sense of a particular territory / territory at the local level. Regional autonomy is not only a delegation of authority but also an increase in community participation in regional development.

Thus decentralization, deconcentration, and co-administration always appear together in the history of the implementation of regional autonomy in Indonesia, both in the new order through Law No. 5 of 1974, and during the reform order through Law 22 of 1999 and revised with Law no 32 of 2004 and Law No.23 of 2014.

### 1.2. General Allocation Fund (GAF)

The General Allocation Fund is one of the transfer funds originating from the expenditure budget which is allocated with the aim of increasing the equitable distribution of financial capacities between regions to fund regional needs in the context of decentralization. The General Allocation Fund according to Law No.25 of 1999 comes from the expenditure budget and is allocated with the aim of equitable distribution of financial capacity between regions to finance their expenditure needs in the context of the implementation of Decentralization. GAF is stipulated at least 25% (twenty-five percent) of the Domestic Revenues stipulated in the State Budget. Then, from 25% it is further divided into 90% for GAF for Regency / City areas and 10% for GAF for Provincial areas. As previously stated, GAF acts as a block grants transfer

### 1.3. Original Local Government Revenue (OLGR)

According to Law No. 33 of 2004 Regional Original Revenue is revenue that is obtained from the region which is collected based on regional regulations in accordance with statutory regulations, consisting of:

- OLGR Tax. According to Law No. 28 of 2009, local taxes, hereinafter referred to as taxes, are mandatory contributions to regions that are owed by individuals or entities that are coercive based on the Law, with no direct compensation and are used for the purposes of the Region for the greatest prosperity of the people;
- OLGR Non-Tax:
  - regional Retribution. According to Law No. 28/2009 in total there are 30 types of user fees that can be collected by regions which are grouped into 3 groups of levies, namely public service fees, business service fees and certain licensing fees;
  - the revenue from separated regional assets. Law No. 33 of 2004 classifies the types of results of the management of separated regional assets, broken down according to the object of income which includes the share of profits on equity participation in regionally-owned companies, the share of profits on equity participation in state-owned companies and the portion of profits on equity participation in a company owned. private or community groups;
  - other legitimate Local Government Revenue. According to Law No. 33/2004, it explains about legitimate Local Government Revenue, provided to budget regional revenues that are not included in the type of local tax, and the results of the management of separated regional assets.

#### 1.4. Investment

Investment is the demand for goods and services to create or increase production capacity / income in the future (Dornbusch 2008). Investment includes two main objectives, namely to replace part of the supply of damaged capital (depreciation) and additional provision of existing capital (net investment). In the calculation of national income, investment is the whole value of the purchase of entrepreneurs on capital goods and expenditures to establish industry and the increase in the value of the stock of unprocessed and finished goods.

#### 1.5. Flypaper effect

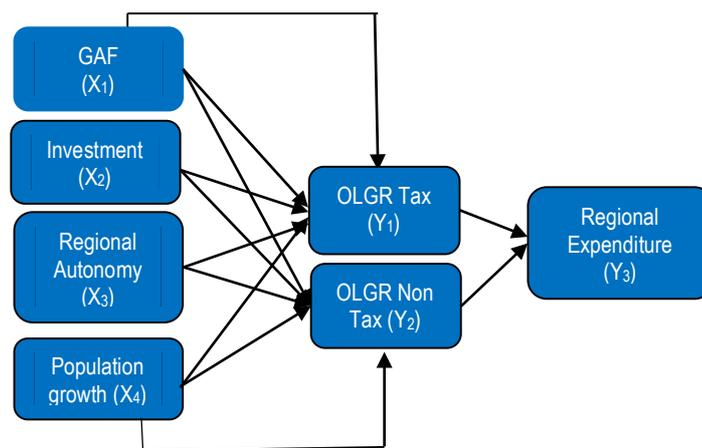
The flypaper effect has implications where one of them will increase regional government spending is greater than the revenue of the region itself (Turnbull 1998) as well as the tendency to wait for assistance from the center compared to managing regional resources themselves. Implicitly there are several implications of the occurrence of the flypaper effect on district / city regional spending, such as:

- causing the fiscal gap (Fiscal gap) will remain. Fiscal gap is a central government policy framework in providing GAF to the regions, so if a flypaper effect occurs, it means that the achievement of transfer funds is less than optimal. This can be seen in the analysis of the development of GAF and regional expenditure;
- leads to inaccuracies in the use of sources of income generating growth in OLGR, such as increased local tax revenue, as well as other natural resources. This can be seen from the proportion of the average ratio of GAF and OLGR, where the average proportion of GAF is greater than the OLGR which only contributes 10 percent of regional expenditure;
- causing the element of regional dependence on the central government to remain, because it directly provides GAF to the regions which means the central government subsidizes regional expenditure to reduce the burden of financing, so that it will weaken the region's ability to finance its own needs;
- there is an excessive response in the utilization of transfer funds where the central government should make the performance of monitoring and evaluation of local governments in order to monitor, control and evaluate the use of GAF, this is needed to prevent excessive response in exposing GAF revenue in the regions;
- resulting in a lack of regional financial independence in the district/city concerned (Walidi 2009).

The flypaper effect can generally be understood as the inequality of the effect of public expenditure from central government assistance and an increase in revenue by the same amount. Whatever the central government assistance to the regional government must have the same effect. An example is that every rupiah issued by the central government as assistance to local governments, should have an equal effect of one rupiah to an increase in government or local community income. If this does not happen, where there is a tendency that the influence of public expenditure in the form of central government assistance to regional governments does not have the same effect, this is called the flypaper effect.

Based on the explanations of the theories above, local government revenue in this study is influenced by GAF, population growth, regional autonomy policy and investment. To see the relationship between various variables above, it will be shown in the form of a conceptual framework in the following figure:

Figure 1. Conceptual framework



Based on the conceptual framework, a hypothesis can be found which is a temporary answer to the problem that will be discussed through this research. The hypotheses proposed are as follows:

- H1. GAF has a significant effect on OLGR Padang City Tax.
- H2. Investment has a significant effect on Padang City's OLGR.
- H3. Regional autonomy policy has a significant effect on OLGR Padang City Tax.
- H4. Population growth has a significant effect on OLGR Padang City Tax.
- H5. GAF has a significant effect on OLGR Not Padang City Tax.
- H6. Investment has a significant effect on OLGR Not Padang City Tax.
- H7. The policy of regional autonomy has a significant effect on Padang City's Non-Tax OLGR.
- H8. Population growth has a significant effect on Padang City's Non-Tax OLGR.
- H9. Tax GAF has a significant effect on Regional Spending in the City of Padang.
- H10. Non-tax GAF has a significant effect on Regional Spending in the City of Padang.
- H11. Flypaper effect occurred in Padang City Regional Budget.

## 2. Methodology

This research is classified as descriptive and associative research. Descriptive research is research that aims to describe or explain a thing as it is. While associative is research that aims to see the relationship between independent variables.

This research is also *an expo facto* that is research that is to find out what causes something to happen and sort back so that the factors known to cause. The data in this study are in the form of time series data. Data on all variables in this study began from 1980 until 2018 in the city of Padang.

Data analysis method is used to analyze the data obtained in order to determine the effect of independent variables on the dependent variable or to determine the effect of the General Allocation Fund (Investment, Population Growth, and Autonomy Policy) on OLGR, and to determine the effect of Original Revenue Regional from Tax and Regional Original Revenue is not a Tax on Regional Spending in Padang City Before and After the Implementation of Regional Autonomy (1980-2018) Data analysis used in this study uses regression analysis.

The general form for the regression equation above is:

$$Y1 = f(X1, X2, X3, DUMMY) \quad (1)$$

$$Y1 = \beta_0 + \beta_1X1 + \beta_2X2 + \beta_3X3 + \beta_4DUMMY + \mu_i \quad (2)$$

$$\text{LN}(Y1) = \beta_0 + \beta_1(\text{LN}(X1)) + \beta_2(\text{LN}(X2)) + \beta_3X3 + \beta_4DUMMY + \mu_i \quad (3)$$

where: LN(Y1) = OLGR Tax; LN(X1) = General Allocation Fund; LN(X2) = Foreign and Regional Investment; X3 = Population Growth (%); DUMMY= Regional Autonomy Policy.

## 2.1. Descriptive statistic analysis

The object of this study is the Government of the City of Padang, West Sumatra. The data examined are economic (financial) ratio data, including the General Allocation Fund, investment, Population Growth, Regional Allocation Revenue (Tax and Non-Tax), and Regional Expenditure in the period before implementation Regional autonomy (1980-1999) and after the implementation of regional autonomy in Padang City (2000-2018). The results of the descriptive statistical analysis before the implementation of regional autonomy can be fully seen in Table 1.

Table 1. Descriptive statistics of regional expenditures, GAF, investment, population growth, OLGR, and regional spending in Padang city government before regional autonomy

Descriptive Statistic	GAF (Million Rupiah)	Investment (Million Rupiah)	Population Growth (%)	OLGR Tax (Million Rupiah)	OLGR Non-Tax (Million Rupiah)	Regional Expenditure (Million Rupiah)
Mean	3,772.5740	20,630.320	1.726800	5,491.190	3,201.677	115,647.30
Median	1,658.6200	7187.625	1.773500	4,905.331	2,824.216	97,428.24
Maximum	14,595.5300	215,037.100	1.980000	15,581.860	9,136.907	214,718.80
Minimum	447.37790	850.800	1.348000	1,333.821	1,050.130	92,112.77
Std. Dev.	4,105.3640	47,430.310	0.201946	3,716.223	2,137.538	36,911.42

Source: Data Processing Results, 2019

From Table 2 it can be seen that the average General Allocation Fund (DAU) in the Regional Government of Padang City prior to the implementation of regional autonomy (in 1980-1999) was Rp. 3,772,574,000 and a standard deviation of Rp. 4,105,364,000. The average level of investment in Padang City reaches 20,630,320,000 and the standard deviation is 47,430,310,000, the average Regional Original Income (PAD) from Padang City Tax reaches Rp. 5,491,190,000 and a standard deviation of Rp. 3,716,223,000. The average of Local Original Revenue (PAD) instead of Padang City reached Rp. Rp. 8,647,260,000 and a standard deviation of Rp. 5,889,451,000. The average expenditure of the City of Padang reaches Rp. 115,647,300,000 and standard deviations of Rp. 36,911,420,000.

Table 2. Descriptive statistics of regional expenditures, DAU, investment, population growth, PAD, and regional spending in Padang city government after regional autonomy

Descriptive Statistic	GAF (Million Rupiah)	Investment (Million Rupiah)	Population Growth (%)	OLGR Tax (Million Rupiah)	OLGR Non-Tax (Million Rupiah)	Regional Expenditure (Million Rupiah)
Mean	643,186.90	385,340.60	1.541136	65,287.07	123,245.10	1,096,640.0
Median	628,472.60	123,131.00	1.838000	40,933.20	76,795.69	996,418.4
Maximum	1120,046.00	2,745,717.00	2.263167	220,736.60	348,898.10	2,177,973.0
Minimum	12,980.35	165.00	-3.458291	11,092.97	8,12	241,983.3
Std. Dev.	367,101.06	662,243.80	1.259420	57,768.30	102,490.20	692,169.1

Source: Data Processing Results, 2019

Based on Table 2 above it can be seen that the average General Allocation Fund of Padang City after the implementation of regional autonomy (in 2000-2018) is Rp. 643,186,900,000 and standard deviation of Rp. 367,101,600,000. The average investment level in Padang City reaches Rp. 385,340,600,000 and standard deviation of Rp. 662,243,800,000. the average population growth rate in Padang City reached 1.541136% and the standard deviation of 1.259420%. Average Local Own Revenue from Padang City Tax reaches Rp. 65,287,070,000 and a standard deviation of Rp. 57,768,300,000. The average of Local Original Revenue instead of Padang City reached Rp. Rp. 123,245,100,000 and standard deviation of Rp. 102,490,200,000. The average expenditure of the City of Padang reaches Rp. 1,096,640,000,000 and a standard deviation of Rp. 692.169.100,000.

## 2.2. Multiple regression analysis

Samples of data that have been collected and compiled are then performed calculations to get an appropriate estimation model and hypothesis testing regarding the influence of the General Allocation Fund, Investment, Population Growth, and Autonomy Policy on Local Revenue Taxes before and after the implementation of regional autonomy ; the influence of the General Allocation Fund, Investment, Population Growth, and Autonomy Policy on Regional Original Revenue instead of Tax before and after the implementation of regional autonomy; and the influence of the General Allocation Fund, Regional Original Revenue Tax, Regional Allocation Revenue instead of Tax on Regional Spending before and after the implementation of regional autonomy.

The results of multiple regression analysis are as follows:

Table 3. Multiple regression analysis

Dependent Variable	Independent Variable	Coefficient	Prob.	Adjusted R-squared	Prob (F-statistic)
Y1	X1	0.519	0.000	0.9305	0.000
	X2	0.056	0.111		
	X3	0.395	0.054		
	DUMMY	-0.479	0.005		
	C	9.769	0.000		
Y2	X1	0.567	0.000	0.9795	0.000
	X2	0.030	0.246		
	X3	0.477	0.003		
	DUMMY	-0.116	0.636		
	C	8.800	0.000		
Y3	X1	0.031	0.023	0.9996	0.000
	Y1	0.522	0.000		
	Y2	0.448	0.000		
	C	0.657	0.001		

Source: Data Processing Results, 2019

Based on the above table, the regression equation can be arranged as follows:

$$Y1 = 9.769 + 0.519.X1 + 0.056.X2 + 0.395.X3 - 0.479.DUMMY \quad (4)$$

$$Y2 = 8.800 + 0.567.X1 + 0.030.X2 + 0.477.X3 - 0.116.DUMMY \quad (5)$$

$$Y3 = 0.657 + 0.031.X1 + 0.522.Y1 + 0.448.Y2 \quad (6)$$

where: X1 = General Allocation Fund; X2 = Foreign and Regional Investment; X3 = Population Growth (%); DUMMY = Regional Autonomy Policy; Y1 = Tax PAD; Y2 = Non Tax PAD; Y3 = Padang City Regional Spending.

Analysis of acceptance or rejection of hypotheses based on the probability of the multiple regression t test in Table 3 can be summarized as follows:

Table 4. Analysis of acceptance based on multiple regression analysis

Hypothesis	Prob.	Description
H1   GAF has a significant effect on OLGR Padang City Tax	0.000	Accepted
H2   Investment has a significant effect on Padang City's OLGR	0.111	Rejected
H3   Regional autonomy policy has a significant effect on OLGR Padang City Tax	0.005	Accepted
H4   Population growth has a significant effect on OLGR Padang City Tax	0.054	Rejected
H5   GAF has a significant effect on OLGR Not Padang City Tax	0.000	Accepted
H6   Investment has a significant effect on OLGR Not Padang City Tax	0.246	Rejected
H7   The policy of regional autonomy has a significant effect on Padang City's Non-Tax OLGR	0.636	Rejected
H8   Population growth has a significant effect on Padang City's Non-Tax OLGR	0.003	Accepted
H9   Tax OLGR has a significant effect on Regional Spending in the City of Padang	0.000	Accepted
H10   Non-tax OLGR has a significant effect on Regional Spending in the City of Padang	0.000	Accepted

Source: Data Processing Results, 2019

While the analysis of acceptance or rejection of hypothesis 11 is conducted according to the opinion of Melo (2002) and Venter (2007) states that the flypaper effect occurs when the influence (coefficient value) of GAF on regional expenditure is greater than the influence (coefficient value) of OLGR on Regional Expenditure, and the value both are significant.

Table 4 shows that both Regional Original Revenue from Tax, Regional Non-Tax Revenue and GAF both have a significant influence on expenditure as indicated by prob. < 0.05. However, the GAF coefficient is smaller than Regional Original Revenue from Tax, Regional Original Revenue is not from Tax so it can be concluded that there is no fly paper effect on the Padang City Regional Budget or in other words H11 is rejected.

Based on the test results above, it shows that the General Allocation Fund in the Government of the City of Padang is able to increase Regional Original Revenue from taxes and non-taxes both before and after the implementation of regional autonomy. These results also indicate that the General Allocation Fund in Padang City has a significant role in horizontal equalization, namely by closing the fiscal gap between fiscal needs and the economic potential of the region. So that the Padang City General Allocation Fund that takes into account the potential factors of the natural resource sector (primary), the industrial sector and other services (non-primary), and the size of the workforce that has an impact on Local Revenue from Taxes and non-taxes. The decision to determine the General Allocation Fund which takes into account the needs and acceptance factors in Padang City is important because it will affect the Regional Original Revenue from City Taxes and Non-Taxes.

Based on the test results above, it shows that the Padang City Government's Investment has not been able to increase Regional Original Revenue from Taxes and Non-Taxes both before and after the implementation of regional autonomy. These results also indicate that the level of investment made by the Government of the City of Padang.

Both public investment, private investment, domestic investment, and foreign investment has not been able to have a significant impact on Local Revenue from tax and non-tax. This is supported also by more investments in the city of Padang conducted by the Government and the Government-Private. Where government investment is generally done not with a view to profit, but the main objective is to meet the needs of the community. In general, the private sector is not interested in this investment because it requires a very large cost and does not provide immediate benefits, but gradually over a long period of time.

Based on the test results above, it shows that Population Growth in the City of Padang has not been able to increase Regional Original Revenue from taxes both before and after the implementation of regional autonomy. This result also indicates that the population growth rate in Padang City which in general is the main resource in the development of an area has not been able to have a significant impact on the Regional Original Revenue from Taxes. However, population growth is actually able to increase Non-Tax Regional Revenue.

Based on the test results above, it shows that the implementation of the Regional Autonomy Policy in Padang City has an influence on the Regional Original Revenue from Tax but it is not significant to the non-Regional Original Revenue. These results also indicate that the implementation of the Regional Autonomy Policy in the City of Padang, which in general is able to have a significant impact on the Local Revenue of Taxes. The Central Government gives authority to the Regional Government (Decentralization). In line with the decentralization, aspects of financing are also decentralized. The implication is that the regions are required to be able to finance their own development costs.

Based on the test results above, it shows that the Regional Original Revenue from Tax and Non-Tax in Padang City Government will be able to increase Regional Expenditure both before and after the implementation of regional autonomy. This means that the Padang City government is making the best use of its revenue increase for regional spending intended for the maximum welfare of the people. The results showed that the increase in Regional Original Revenue from Taxes affected Regional Expenditures. The results of this study are in line with the results of Afrizawati's study (2015) which states that Regional Original Revenue significantly influences the amount of Regional Expenditures of seven Regencies/parent cities in South Sumatra. The results of this study are also in line with the results of research from Kurniawati (2010), which states GAF and PAD have a significant positive effect on regional spending.

The flypaper analysis analysis that can be concluded is that although the two independent variables (Tax and Non-Tax OLGR and GAF) can significantly influence the dependent variable (Regional Expenditure), tax and non-tax OLGR turns out to be more influential than GAF where the regression coefficient value of the tax OLGR variable and non-tax is greater than the GAF variable regression coefficient. This shows that there is no flypaper effect on regional spending on the realization of the Padang City Regional Budget. This means that the Regional Expenditure policy in Padang before and after regional autonomy is more dominated by OLGR than GAF.

Description of the new studies/ software/ artwork and the process of production. What has been done, how was it achieved and what was the rationale? This can be, for example, a report on the design and execution of a set of experiments, the development of an innovative software system or the making of innovative art works. If so, this chapter will illuminate it by explaining, at the very least, what is important and new about it.

## **Conclusion**

From the results of testing the hypothesis that has been carried out it can be concluded as follows:

- GAF has a significant effect on Padang City Tax OLGR;
- Investment has no significant effect on Padang City Tax OLGR;

- Regional autonomy policy has a significant effect on Padang City Tax OLGR;
- Population Growth has no significant effect on Padang City Tax OLGR;
- GAF has significant effect on Padang City's Non-Tax OLGR;
- Investment has no significant effect on Padang City's Non-Tax OLGR;
- Regional autonomy policy does not significantly influence Padang City's Non-Tax OLGR;
- Population growth has a significant effect on Padang City's Non-Tax OLGR;
- OLGR Tax has a significant effect on Regional Spending in Padang City;
- Non-Tax OLGR has a significant effect on Regional Spending in Padang City;
- No flypaper effect occurs on regional expenditure on the realization of the Padang City Regional Budget.

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